The Louisville Industrial Foundation

A STUDY IN COMMUNITY CAPITALIZATION OF LOCAL INDUSTRIES

Research Department

FEDERAL RESERVE BANK *of* ATLANTA

THE LOUISVILLE INDUSTRIAL FOUNDATION

A STUDY IN COMMUNITY CAPITALIZATION OF LOCAL INDUSTRIES

by Ernest J. Hopkins
Senior Economist

FEDERAL RESERVE BANK OF ATLANTA
February 1945

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FOREWORD

This pamphlet is the third in a series on the subject of industrial promotion methods that the Board of Directors of the Federal Reserve Bank of Atlanta has authorized the Research Department of the Bank to prepare for general publication. The first pamphlet, entitled *Mississippi's BAWI Plan,* deals with Mississippi's effort to promote a better balance between agriculture and industry by permitting local governmental units to issue bonds, under state direction and control, for the purpose of providing buildings and equipment to be used for manufacturing purposes by client concerns. The second, *The Alabama State Docks,* gives an account of the development and operation of Alabama's state-owned dock facilities at Mobile. The present pamphlet describes the nature and functions of the Louisville Industrial Foundation, a quasi-public industrial-promotion organization of Louisville, Kentucky.

Running through these studies is a concern with methods by which industrial development may be stimulated within a given area. The Mississippi study describes a method by which local governmental units actively participated in such promotion. The Alabama study describes a method of assisting the industrialization process by means of a state-owned and state-managed enterprise. The Louisville study offers an example of industrial stimulation achieved by means of a privately owned and managed corporation that has as its chief purpose the economic advancement of its community.

In thus publishing these studies of public or semipublic means of industrial stimulation, the Federal Reserve Bank of Atlanta takes a completely neutral position. The Bank wishes merely to contribute to the information about what has been tried in the way of regional and community self-help to bring about industrial development within a given area. The undertakings that have so far been described were selected for study because they seemed notable in themselves and had not previously been described in detail.

Underlying its interest in these plans of community self-help is the Bank's concern with the achievement of a better balance between agriculture and industry in the region that it serves. Composed of the states of Alabama, Florida, and Georgia and parts of Louisiana, Mississippi, and Tennessee, the Sixth Federal Reserve District is an area that traditionally has been largely agricultural in character. The growing use of machine technology and of improved production methods has tended to bring about an excess supply of labor in the region's agriculture, thus influencing farm people to leave their homes in order to find employment elsewhere.

A greater expansion of industrial employment is the paramount need of the region if it is to give sustenance to its people. In studying the means by which such expansion may be attained, the Bank is simply expressing its interest in that region with which it is primarily identified. This interest is in no sense original with the Bank for it is an interest that permeates the entire fabric of Southern thought on the need for a greater degree of industrialization. In publishing the results of its studies in pursuit of this interest, the Bank is endeavoring to perform a public service by sharing with others the results of its findings.

Individual copies of this pamphlet, or of any other of the series, will be provided without cost to those who request them. Bulk orders for copies will be gladly filled, but a charge will be made for actual printing costs and postage.

W. S. McLarin, Jr.
President

February 1945

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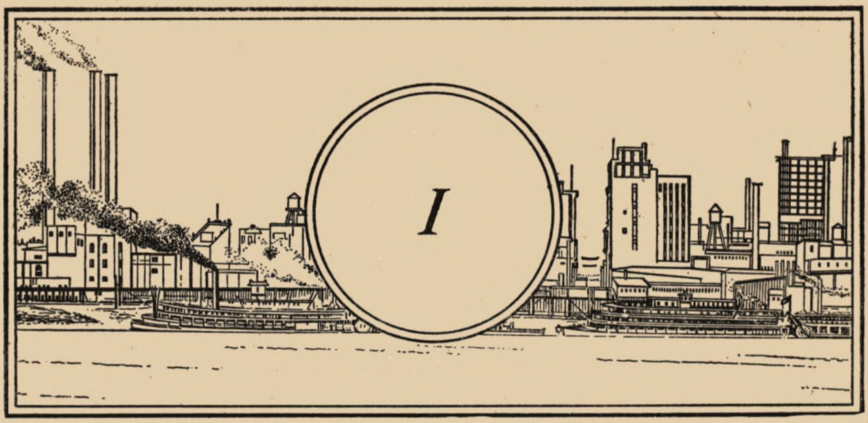

GENERAL DESCRIPTION OF THE FOUNDATION

A Private-Public Institution

For nearly three decades past, the expansion of manufacturing activity in Louisville, Kentucky, has been aided by a rather unusual local institution, the Louisville Industrial Foundation.[1] The Foundation presents a combination of private business characteristics and quasi-public motives. It was incorporated under the laws of Kentucky in 1916 as a technically profit-making enterprise, and its structure is the conventional one, consisting of a board of 15 directors, elected by the stockholders; an executive committee of the board; and a salaried administrative personnel. The articles of incorporation on their surface are those of a commercial investment company set up to deal in industrial securities. But one unique clause in the articles defines a broad public purpose, and this purpose has pervaded the activities of the Foundation. "The nature of its business," this clause sets forth, "shall be to advance and develop the City of Louisville and vicinity industrially."[2]

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[1] Other somewhat similar foundations exist and several of these also provide temporary capital to industries. In its undated mimeographed pamphlet, *Community Industrial Financing Plans,* the Chamber of Commerce of the United States lists and describes 22 such organizations in the following communities: Akron, Ohio; Baltimore, Maryland; Brockton, Massachusetts; Danville, Illinois (2); Easton, Pennsylvania; Elmira, New York; Grand Rapids, Michigan; Greater Muskegon, Michigan; Hopkinsville, Kentucky; Hoquiam, Washington; La Crosse, Wisconsin; Little Rock, Arkansas; Louisville, Kentucky; New Bedford, Massachusetts; Omaha, Nebraska; Portland, Maine; Rochester, New York; Scranton, Pennsylvania; Tulsa, Oklahoma; Wheeling, West Virginia; and Wilkes-Barre, Pennsylvania. Among these, the Louisville Industrial Foundation is the fifth in age, the second in size of capital fund, and one of the best known.

[2] See Articles of Incorporation, Sec. III, p. 63.

It was the central theory of the founders of this institution that the work of community industrial development, supported in most cities by annual subscriptions from the business public, could be conducted as a form of business, involving the investment of capital for a return and capable at least of sustaining itself, if not of making profits. In accordance with this theory, the Foundation has pursued two lines of activity.

The first, which may be termed quasi-public, is that of an industrial bureau. The Foundation collects and disseminates information and data concerning the Louisville area, answers business queries, and at times compiles more than ordinarily reliable industrial briefs for site-seeking manufacturing concerns. This aspect of its work has brought results; in 28 years, 69 civilian enterprises and two important wartime developments, for which the Foundation supplied the preliminary contacts and information, have become established in Louisville. Initially, the 69 private companies had a total capital of $15,263,900, and their first-year pay rolls aggregated $3,928,540; many of them have expanded considerably since their arrival in the area. All these enterprises provided their own capital. This development service, being free, brings the Foundation no monetary return.

The development work, however, is supported by the second major function, which is that of making medium-term capital loans to manufacturing enterprises that cannot obtain adequate capital from other sources. The corporation has a fund, formed originally by the resident business firms and townspeople of Louisville, during a public subscription drive held in 1916, and maintained intact since that time. The subscribers consolidated their savings primarily as a contribution to the industrial advancement of their community, but in doing so they purchased common stock in the Foundation; in this way, the quasi-public promotional endowment became also the paid-in capital of the corporation, and its administration was confided to the business leaders who became the corporation's directors. This community fund, when all subscriptions were collected, amounted to $875,759; earnings from investments, above administrative expenses and losses, have since increased the total assets of the Foundation to $983,659.[3]

From its resources, the Foundation upon occasion provides temporary capital, in amounts up to $100,000 and for periods as long as 10 years, to selected manufacturing companies whose plants must be located within the Louisville area. It has made such capital loans, during its 28 years of life, to 44 manufacturing establishments. These enterprises, which are listed in table 1, have been additional to the 71 previously mentioned. Two civic situations, one of them a new public airport, also have been financed.

The loans to manufacturers are made for the construction or enlargement of plant, for the purchase or modernization of mechanical equipment, and for other purposes that are commonly associated with equity

[3] Semiannual Report of the Louisville Industrial Foundation, June 30, 1944.

TABLE 1

CHRONOLOGICAL LIST OF 46 SITUATIONS FINANCED BY THE LOUISVILLE INDUSTRIAL FOUNDATION, STATING TYPE OF PRODUCTION FINANCED, DESCRIPTION OF ENTERPRISE AT TIME OF FIRST FINANCING, AND SUBSEQUENT STATUS OF ENTERPRISE

	First Financing by Foundation		
Type of Production	*Year*	*Description of Enterprise*	*Subsequent Status of Enterprise*
Garments	1917	Old-established	In operation today
Wood Products	1917	Completely new	In operation today
Cigarette foil	1918	Brought-in	In operation today
Automobile parts	1918	Brought-in	In operation today
Petroleum refining	1918	Brought-in	In operation today
Cottonseed products	1918	Old-established	In operation today [a]
Dairy products	1918	Brought-in	In operation today
Business equipment	1919	Completely new	In operation today
School furniture	1920	Completely new	Liquidated, 1930
Wood products	1920	Completely new	Liquidated, 1926
(Teachers' salaries)	1920	(Board of Education)	Loan repaid, 1921
Patent desks	1920	Brought-in	Liquidated, 1928
Cold storage	1921	Completely new	In operation today [b]
Automobile bodies	1921	Completely new	Liquidated, 1926
Electrical devices	1921	Recently founded	In operation today
Railroad metal	1923	Brought-in	Liquidated, 1942
Drying machinery	1923	Recently founded	In operation today
Toy balloons	1924	Completely new	Liquidated, 1927
Shoelaces	1924	Brought-in	In operation today
Hosiery	1924	Completely new	Liquidated, 1927
Petroleum refining	1925	Completely new	In operation today
Pipe organs	1925	Old-established	Liquidated, 1944
Structural steel	1925	Old-established	In operation today
Water heaters	1925	Brought-in	In operation today
Bakery products	1926	Brought-in	In operation today
Bakery products	1927	Brought-in	In operation today
Enameled metal	1927	Brought-in	In operation today [c]
Stamped metal	1927	Completely new	In operation today
Bedsprings	1928	Old-established	In operation today
Macaroni	1929	Completely new	In operation today
Metal sundries	1930	Brought-in	Merged, 1935 [d]
Building materials	1931	Recently founded	In operation today
Wood products	1933	Recently founded	In operation today
Printing, magazine	1935	Old-established	In operation today [e]
Dairy products	1935	Completely new	In operation today
Food specialties	1938	Recently founded	In operation today
Wood products	1938	Old-established	In operation today
Printing, job	1939	Old-established	In operation today
Work garments	1939	Recently founded	In operation today
Cotton rope	1939	Old-established	In operation today
Bakery products	1940	Old-established	In operation today
Metal foil	1940	Completely new	In operation today
Food specialties	1940	Old-established	In operation today
Packed poultry meat	1940	Recently founded	In operation today
(New public airport)	1941	(City-County Air Board)	In operation today
Radio cabinets	1943	Recently founded	In operation today

[a] Absorbed into national company, 1925.
[b] Absorbed into national company, 1931.
[c] Originally an affiliate, became independent 1934.
[d] Merged voluntarily with enameled-metal company, 1935.
[e] Purchased by magazine company, 1944.

rather than with borrowed capital. The investments are retired gradually by the benefited enterprises through term payments, usually made monthly; are secured by first mortgages on the industrial property; and bear current rates of interest, normally 5 or 6 per cent in recent years. The Foundation supports its capital loans by a variety of business services, financial and other, rendered to the client establishments. Since its credits are extended only to manufacturing companies that cannot obtain the equivalent amount of capital on comparable terms from other sources in the same area, the Foundation performs a strategic role in rounding out and supplementing Louisville's structure of organized finance.

On its surface, the function of capital investment is a money-making activity. But, in turn, the Foundation's financial operations have always been influenced by public considerations. Membership on the board of directors, which expressly authorizes each transaction, is regarded as a community honor and civic responsibility.[4] Underlying each act of capital provision has been the prevailing motive of providing new employment, pay roll and industrial profits for the people of Louisville or, in times of depression, of preventing industrial decline. The enterprises financed by the Foundation have included 13 that were completely new, 8 that were recently founded and ready for expansion through capital, 12 that were brought in from other points, and 11 old-established concerns. With few exceptions these have been locally owned, independent in status, relatively small in size (none with more than 400 workers at the time of the Foundation's first investment), and engaged in types of production regarded as complementary to other local enterprises and appropriate to the area itself. The use of capital by the Foundation, accordingly, has had a considerable element of economic planning, distinct from the element of profits.

The Foundation has disbursed no dividends to its stockholders. All costs of the development work and business services have, indeed, been covered from the investment earnings, and the Foundation's assets have increased with time. But the return to those who contributed the fund

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[4] The officials of the Foundation in 1944 were as follows: Officers: President, William B. Harrison; vice president, J. C. Engelhard, comptroller of the City of Louisville; vice president, Robert Montgomery, vice president of the Louisville Gas and Electric Company; secretary-treasurer, F. B. Ayres.

Directors: Robert P. Bonnie, secretary-treasurer, Kentucky Color and Chemical Company; George O. Boomer, vice president, the Girdler Corporation; C. R. Bottorff, president, Belknap Hardware and Manufacturing Company; W. S. Campbell, vice president, Kentucky and Indiana Terminal Railroad; A. H. Dick, president, Louisville Textiles, Inc.; J. C. Engelhard; Eugene D. Hill, president, Louisville Cement Company; William B. Harrison; E. H. Hilliard, J. J. B. Hilliard and Sons, investment bankers; E. J. Hoddy, general development agent, Louisville and Nashville Railroad; F. H. Miller, president, Louisville Railway Company; Robert Montgomery; Murray P. Nicol, president, Struck Construction Company; E. J. O'Brien, Jr., E. J. O'Brien and Company; and William A. Stoll, secretary-treasurer, Stoll Oil Refining Company.

Executive Committee: Messrs. Harrison, Engelhard, Montgomery, and Hilliard; Ayres, secretary.

has been indirect, accruing from the participation of local business firms and residents in the increased community income and social wealth that have resulted from the industrial development. As an instance of this process, the well-known Reynolds Metals Company came to Louisville in its infancy, in 1917, partly because the Foundation existed, and its early expansion was fostered by a capital loan of $30,000 from the community fund. Today this one group of interests, grown to a $91,000,000 national corporation, operates nine of its more than 40 major war plants in the Louisville area, and employs many thousands of workers within the community. Owing to this and other cases, there is little disposition in Louisville to question that the community-fund formation of 1916 has been a paying investment, though the return to the individual investors is impossible to compute.

Purpose of the Study

The 28-year experience of the Louisville Industrial Foundation appears significant at the present time in relation to two impending issues of the readjustment period. In many communities, where the necessity of sharing in the postwar revival of civilian production is perceived, community funds at present are being contemplated or actually raised. Problems are involved in this activity. Since the Foundation has encountered virtually every difficulty and has won virtually every type of success connected with community-fund administration, its record in this respect may have practical advisory value.

But in addition, the Foundation has specialized, for many years past, in the difficult and controversial field of small business financing, and this aspect of its history offers a suggestive case study bearing upon a major problem of banking and investment in the present time. The particular methods and technics developed in Louisville in capitalizing the small personal enterprises of that area may or may not be universally applicable, but they have had a path-finding character, in practice have met with considerable success, and, accordingly, are described in some detail in this report.

Device of the Revolving Fund

The primary working policy of the Foundation, whether in relation to its developmental work or to its investment activity, is the treatment of its capital as an interest-bearing revolving fund. The original $875,759 of paid-in capital, loaned, repaid, and reloaned, has provided $3,849,045 in gross industrial investment from the beginning of 1917 to June 30, 1944.[5] This policy contrasts sharply with the practice of communities that have raised smaller funds and expended them outright, for purposes

[5] The gross amount has included $2,603,947 in "new money" for capital purposes in manufacturing and $200,000 in civic situations, the remainder including refinancing investments and one current working-capital account.

of advertising or to subsidize particular enterprises. The argument that is used to justify the nonpayment of dividends by the Foundation, namely that the return upon investment is indirect, is, to be sure, the same argument that is ordinarily used in behalf of promotional or subsidy expenditures. But here the resemblance ceases, for whereas an advertising or subsidy appropriation is usually expended outright, the original capital fund that was formed in Louisville has turned over four and a half times in 28 years and has not only renewed itself but has increased in size and is larger than ever today.

No further fund drive for Foundation purposes has been held since 1916. The interest earnings from investments have covered all current expenses,[6] whether of the free industrial service, the work of loan collection and accounting, or of the aids to client industries. Also, this income has overcome four items of early capital loss amounting to $209,021, a contingent loss of $31,304 from the closing of a bank in the depression, and five items of interest write-off amounting to $57,895. Meanwhile the increase in total assets above the original paid-in capital has amounted to 12.3 per cent, or an average annual gain of 0.44 per cent for the 28-year period.

Under the revolving-fund plan, in short, the enterprises that borrowed the community capital may be said to have paid the costs of Louisville's development, as far as that development may be ascribed to the Foundation; and there is the further important fact that these enterprises have not been recipients of charity and, though temporarily indebted, have retained their independent status. The Foundation on June 30, 1944, had liquid assets of $399,355 and a reserve against possible losses amounting to $90,000, in addition to industrial investments of $567,698. The revolving fund, accordingly, was apparently in a position to protract its developmental and financial services indefinitely.

Limits of the Investment Field

The field of the Foundation's investment activities is definitely restricted. All loans must be made within the Louisville metropolitan area, which had in 1940 a population of 435,408. No loans may be made to trade, service, construction, or other enterprises outside the field of manufacturing.

The supplemental position of this financial service constitutes another important limitation. As a community institution, the Foundation avoids competing with the banking concerns, investment banks, building and loan associations, and other loan-making institutions of its area. Maintaining this supplemental position has been a matter of canvassing, in each particular case, the possibility that an applicant enterprise might obtain its needed capital from some other local source.

The building and loan associations of Louisville, with which the

[6] Total expenses of the Foundation in the first half of 1944 amounted to $17,619, this amount being typical of recent periods. This includes $5,945 income taxes.

Foundation most nearly competes, emphasize the residential rather than the industrial mortgage. The investment banks deal, ordinarily, with a larger type of enterprise.

In relation to the commercial banks, the Foundation's position has been one of independence plus co-operation. The institution preserves its supplemental character by accepting at times a type of risk somewhat more marginal than that desired by the usual bank and also by lending for longer periods and in larger amounts in ratio to the value of security than is ordinarily done by banks. Because of these differences in standards, the Foundation has made no loans in participation with banks. It does not lend for the purpose of debt consolidation or take over debts from previous creditors, including banks. Various stand-by agreements, however, have been made with banks, for example, in cases in which a bank has established a short-term line of credit for working-capital purposes at the same time that the quasi-public agency has supplied five-year or 10-year capital for expansion purposes. For many years past, no banks have been directly represented on the board of the Foundation, though its directors at times have also been directors of banks. Thus the Foundation is not a credit pool of the local banks, though it performs, independently, a supplemental service.

Serving as the final restriction on the field of investment is the policy of avoiding too hazardous risks. The Foundation is administered on strict business principles; its directors are businessmen who do not abandon prudence in investment when serving the community. Even though the Foundation operates at times in a twilight zone of risk, in practice that zone is narrow. For many years past, the first mortgage loan has been the primary transaction. In appraising risks, the executive committee considers first the experience and ability of the man or men operating the enterprise, next the prospective marketability of the product, and the breadth or reliability of the market base. Most of the enterprises financed in recent years have been basically sound, and many of the financings have been in aid of wartime and other constructive expansions.

In spite of the policy of safety, however, the orthodox standards of risk acceptance have been relaxed at times. The weak capital position is quite commonly financed. Where the application of new capital has promised a definite increase in employment, or would save an established enterprise from the necessity of releasing workers, a certain degree of hazard has been assumed.

Occasional criticisms may be heard in Louisville to the effect that the Foundation is too conservative. Some basis exists for these criticisms: for the 44 manufacturing situations accepted, the record shows 356 rejections; also, only two strictly new enterprises and no importations of enterprise have been financed since 1930.[7] In brief, the investment

[7] Since 1930, however, many enterprises have been brought in that provided their own capital. This situation, of course, is regarded as preferable by the Foundation.

activity, except in the initial period, has had only partially the character of a venture foundation. But numerous capital-needing local enterprises have received a financial aid that they could not otherwise have obtained, and no capital loss has been sustained since one that resulted in 1930 from a situation entered in 1921.

Constructive Influences of the Foundation

Within the four limits described—those of the geographical area, of the manufacturing investment, of the supplemental position, and of business conservatism in the use of its capital—the Foundation has exerted a strategic influence over the manufacturing economy of Louisville. A community that in 1916 was limited mainly to the distilling, tobacco, and woodworking industries is today a center of diversified manufacturing. Much of this development is due to the industrial work of the Foundation. The variety of products it financed directly is seen in table 2.

By two of its loans, the Foundation assisted in expanding the dairying industry in Louisville, and this industry has had a far-reaching effect upon agriculture in the bluegrass area. Another loan was instrumental in making Louisville an important aluminum, cigarette foil, and magnesium center. In woodworking, the fund has been used to encourage within its area the higher forms of lumber processing. Almost equally constructive has been the financing of small food-products plants, the output of which has replaced certain edible products that formerly were imported. Another investment helped to give Louisville its first major commercial cold-storage plant. A recent transaction enabled the City-County Air Board to purchase a needed airport, which in turn is utilized by two important aircraft factories. Finally, Louisville was deficient in metal-working and other heavy industries until the Foundation helped to capitalize additional steel, metal-stamping, metal-enameling, and machinery-making plants.

By encouraging the private investor to place his funds in local industries, the institution has performed one of its most constructive services. Under its charter, the Foundation may advance no more than one third of the total tangible capital value of any manufacturing enterprise. This limitation necessarily implies that private ownership must hold the majority interest. Accordingly, the quasi-public corporation has found itself repeatedly in a participating position with resident manufacturing proprietors, whether silent backers or active owner-managers. This circumstance has induced local private capital to flow, apparently to a somewhat unusual degree, into those local enterprises that the Foundation has accepted as its clients. Various instances have occurred in which a local investor has agreed to put money into a manufacturing enterprise because the Foundation also was behind that enterprise, had appraised and approved it, would service it, and had undertaken a financial and moral commitment for its support. In effect, the Foundation has provided a type of guarantee behind the risks of the local industrial investor.

TABLE 2

TYPES OF PRODUCTION FINANCED BY THE LOUISVILLE INDUSTRIAL FOUNDATION, 1917-44 (JUNE 30), STATING NUMBER OF ENTERPRISES AND AMOUNTS OF NEW CAPITAL PROVIDED, BY INDUSTRY GROUPS

	Number and Types of Enterprises Financed					
Industry Group	*Completely New*	*Brought In*	*Recently Founded*	*Old Established*	*Total Number of Enterprises*	*Amount of New Capital Provided*
Metal products[a]	4	6	2	2	14	$875,518
Food products[b]	3	3	2	2	10	565,619
Wood products[c]	3	1	2	1	7	432,082
Fiber products[d]	1	1	1	2	5	271,228
Civic situations[e]	1	----	----	1	2	200,000
Printing[f]	----	----	----	2	2	150,000
Petroleum products	1	1	----	----	2	100,000
Unclassified[g]	1	----	1	2	4	209,500
TOTAL, 46 Financings	14	12	8	12	46	$2,803,947[h]

[a] Cigarette foil, automobile parts, business equipment, automobile bodies, electrical devices, railroad metal, drying machinery, structural steel, water heaters, enameled metal, stamped metal, bedsprings, metal sundries, metal foil.

[b] Dairy products, cold-storage service, bakery products, macaroni, food specialties, packed poultry meat.

[c] Plywood and veneer, furniture, school furniture, patent desks, laminated woods, radio cabinets.

[d] Garments, shoelaces, hosiery, work garments, cotton rope.

[e] Teachers' salaries (loan), interim financing of new airport.

[f] Magazine printing, general job printing.

[g] Cottonseed products, toy balloons, pipe organs, synthetic building materials.

[h] Total includes $2,071,897 initial investment and $532,050 subsequent investment for manufacturing purposes, and $200,000 loaned to civic agencies.

Policy of Persistent Support of Clients

Only once in its history has the Foundation foreclosed upon a debtor enterprise, although, technically, it could have done so many times. The fundamental motive of upbuilding industries and creating employment has led to a constructive policy in relation to credits that is not distinguishable from the policy of actual equity participation in point of the desire to keep the client manufacturing enterprises alive and to put them in a stable operative and financial position. What is especially notable in this connection is that the Foundation's policy of persistent support of each undertaking, though based upon the public motive, has also proved to be sound from a business point of view. This policy was not applied in the earliest years, and some business failures and losses resulted; but, since affirmative aids to borrowers became the working principle, the enterprises in most cases have attained success, and in all cases have reimbursed the fund, and paid the interest charges in full, sometimes after many years.

This policy of loan support has arisen largely from the exigent nature of the Foundation's financial field and also from the long duration of its accounts. Because of the characteristic variability of the position and earnings of the smaller enterprises, few investments have been retired without departure from the contract schedules in one direction or the other. Of the 44 manufacturing accounts, 18 were retired ahead of time—2 within a year, 7 in less than 4 years—and, since no penalty for premature retirement was charged, the Foundation in these cases forfeited anticipated interest earnings. Other accounts lagged, were extended and, on 15 occasions, were refinanced. Of 18 accounts that were still on the Foundation's books at the end of 1943, 9 were of more than the standard 10 years of age: 1 of these was more than 23 years old; 1, 20 years; and 2, 19 years. Of the retired accounts, 1 was fully paid up after 23 years and 9 months, 1 after 22 years and 4 months, 1 after 15 years, and 1 after 14 years.

Had not the Foundation adapted its credit policy to these variations, and, further, extended active aids to its clients in time of need, many enterprises that ultimately retired both principal and interest in full would not have survived.

Policies of Adaptive Financing

This policy has had an important reciprocal aspect. Because the Foundation has been a constructive creditor, and also because it represented the community and was operated by leading businessmen, the client manufacturing concerns and their backers generally have regarded a debt to this institution as a debt of honor and have been pertinacious in ultimately retiring the obligation.

The policy of seeing the enterprises through to success has taken several forms, the first of which is financial. In the cases of 17 clients, the first outlay of Foundation capital proved insufficient. In these cases, additional capital loans were made, numbering 30 in all. These subsequent advances were generally consolidated with the earlier unpaid balances and accompanied by time extensions of the entire debt. In all, 14 accounts have been extended and refinanced, many others informally extended. In five cases, where clients encountered emergencies that jeopardized their business positions, amounts of accrued interest were written off.

The second form is contractual. The Foundation also has increasingly sought to adapt its collection terms to each enterprise's prospective ability to pay. One adaptive device, embodied in most contracts made since 1939, has represented an endeavor by the Foundation to forecast the business position of the client and to meet that position by grading the payments. For example, on a 10-year loan of $100,000, the contract called for monthly payments of $500 for the first 2 years, $700 in the third year, $800 in the fourth, $900 in the fifth and sixth, and $1,000 thereafter. This contract was based on the expectancy of a progressive increase in the business earnings. On a 5-year loan of $40,000, the monthly payments were fixed at $500 for the first 6 months, $1,000 for 2 years, $800 for 6 months, and were graded down to as little as $100 toward the end. This arrangement was based upon a war contract that was expected to reach its peak in the third year and then decline. By this device, technical delinquencies in payment have been markedly reduced.

Another device that has been employed for several years is the so-called recapture clause, under which a borrowing enterprise that has earned net profits in the preceding year pays to the Foundation 15, 20, or 25 per cent of those profits, in addition to the current payments. The payments made on recapture apply to the notes of the most distant maturities, in reverse order, thus shortening the total time period and saving interest to the borrower in the end. Under conditions of wartime prosperity, several clients have abbreviated their time of indebtedness by a year or more, and one has recaptured from its profits the notes of the last five contract years.

By these adaptive and flexible devices, designed to correspond with the small-business fluctuations, the Foundation has aided the financial position of its client concerns, has safeguarded the community fund from loss, and has insured its own ultimate profits. The approach has been an individual one in the case of each particular client.

Attendant Services and Business Aids

Finally, the Foundation long ago abandoned the usual aloofness of the creditor position in favor of a close concern with the inner affairs of some, at least, of its client enterprises. Its attitude in these cases has amounted to that of a partnership. A certain degree of contact with clients was provided for in the charter of the institution[8] and this relationship, developing with time, has taken the form of business services of an informal and intimate type.

Formal marketing surveys or other economic aids have not been found necessary, such studies probably being more appropriate to larger enterprises than to the smaller ones. Technological services, though desirable, have not been within the organization's sphere. But the small businesses at times have needed specific aids on an individual basis. In the earlier stages, some aids were disciplinary in character: an insistence by the Foundation upon better accounting practices, a demand for improvements and even changes in management or submanagement, and in one case a threat of grand jury action if a financial control that had crept into a company was not eliminated. More difficulties of this sort arose in connection with brought-in concerns than with any other type, for such plants were sometimes affiliated with distant interests that tended to regard the Foundation as a subsidizing agency.

The prevailing type of service, however, may be termed personal. The Foundation has helped some of its client companies to make contact with

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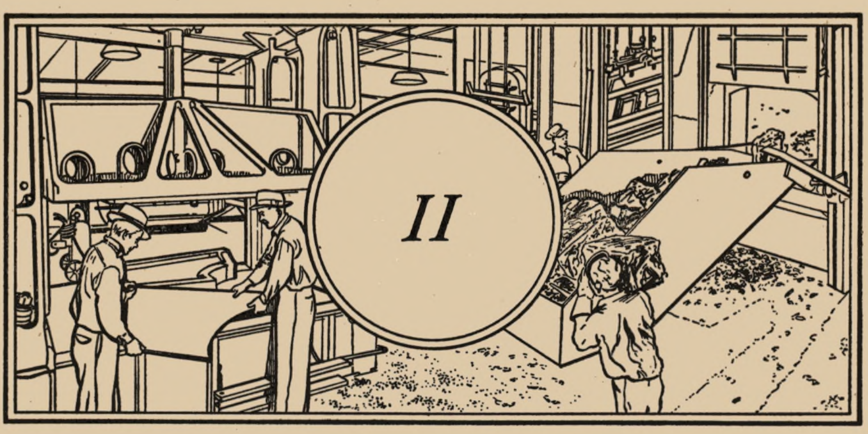
[8] See Appendix A, page 63. Under this provision, Mr. Harrison, president of the Foundation, was a director of 10 client companies in 1944. Mr. Ayres, secretary-treasurer of the Foundation, was secretary of five companies.

private capital, to locate needed sales managers and other key men, and to find better quarters. It has served as business counselor on many occasions, has represented its clients in conferences with trade creditors, has worked out agreements with banks, and has obtained on its own credit materials needed for manufacturing purposes. In one case, the organization investigated and disproved a libel that was damaging a company's standing. Not all the client concerns have required such services, and accordingly some establishments have not received them, but in other cases the relationship, while advisory, has been extremely close. To the small and detached local enterprises, the advice and support of an organization including leading businessmen of the community have been of no small advantage.

The general effects of the Foundation's constructive interest in its financial clients have been twofold: to reduce the risk of its own accounts, and to strengthen the employment-creating potentialities of the enterprises within the community. The private business motive and the quasi-public motive have been found to coincide. Not only has capital been made institutionally and locally available to the small and independent enterprises of Louisville, but the methods of investment and the services that accompanied the investment also have been adapted to their individual needs.



THE BIRTH OF THE FOUNDATION

The Background of Local Depression

In 1916, Louisville, then a city of about 225,000 population, was in a serious situation. The community was not participating in the productive activity of the first world war and none of its leading industries—distilling, tobacco processing, and woodworking—was in good condition. The town's labor force was leaving to find employment along the Great Lakes. Homes were becoming vacant, trade was ebbing, and some stores along the main streets were boarded up.

The Louisville Board of Trade held a series of conferences of business leaders. Generations of family residence had bred in these leaders a strong sense of community trusteeship. The conferees became determined to take action to save the town. Recognizing the primary influence of industrial employment and profits upon other phases of the local economy, they decided to concentrate their efforts upon a development of new and diversified manufacturing in the Louisville area.

The community, which previously had been prosperous, did not lack capital. Also, Louisville was a center of eight railroads, had river transportation, a good power supply, and cheap land for factory sites. The tradition of individual enterprise and of resident ownership of manufactures was strong, so that these leaders thought almost automatically in terms of the development of industries of the independent local order. How to stimulate the desired expansion became the problem.

Community funds were being formed in other cities at this time, for purposes of advertising community advantages, of subsidizing industries, and in some cases of combating unionism. The Louisville leaders readily conceived of raising a fund, but none of these purposes appealed to them. They were looking for something unique—some advantage to the independent manufacturer that would give their area a lasting locational advantage in competition with other areas.

Who among the conferees originally suggested a fund that would be used for the purpose of supplying temporary capital to manufacturing enterprises is a matter of uncertainty today. Many minds obviously contributed. At all events, it was suggested that if Louisville, as a community, could provide a systematic and organized capital source for the small industrialist, the desired development might result; and this thought gained ground. Always in the past the independent enterpriser had had to spend much of his time seeking for personal capital to back his inventions or ideas. Merely to simplify this search, the Louisville leaders considered, would attract industries to their community.

It was decided, accordingly, to solicit the public to create a "Million Dollar Factory Fund." This fund was to be placed under the control of a corporation to be called the Louisville Industrial Foundation.

Proposed Standards of the Foundation

The founders of the movement proceeded to plan the standards of the Foundation. Upon one point they were agreed: the fund, if raised, should be administered along business lines. Those leaders had no patience with loose practices in investment or with any form of industrial subsidization. They settled upon a few broad principles, which later were embodied in the literature of the fund campaign and in the articles of incorporation of the Foundation.

First, the fund was to be raised not only from the business public but from the general public as well. It was reasoned that if the town revived and grew, not only the business community but the entire residential population would benefit.

Second, the capital to be supplied to the manufacturing enterprises should be medium-term temporary capital. This idea was suggested by bankers, who saw the need of establishing a type of financial service that their own institutions at the time did not supply. But there was also another root to this suggestion: the businessmen of Louisville knew the independent manufacturer to be typically an individualist who wanted above all to preserve the freedom of his business, and who viewed equity sale, on other than a temporary basis, as a threat to his prerogative of control. The medium-term investment, retirable in instalments, was calculated not only to furnish capital but also to preserve the independence of the manufacturer who owned his enterprise.

Third, such an investment fund would be a revolving fund. The principal of each investment would be gradually amortized, and interest would be paid. Thus, the original fund could be reinvested again and again, would support itself without depleting capital funds, and might even pay profits. One partly fallacious idea that lingers in Louisville today apparently dates from these discussions; namely, that if ownership shares were bought outright, the fund would lack the revolving character, because the equities of small concerns usually would not be resalable and thus the fund would merely become tied up in a million dollars' worth of "freezings." (This belief overlooked the fact that common stocks or partnership shares may be made serially retirable.) Two methods were perceived by which the earnings of the industries would enable the fund to revolve: either capital loans might be made on a term-payment basis, or preferred stock, which was popular at the time, might be purchased upon a serial retirement plan. The Louisville leaders of 1916 preferred the latter course, and the Foundation appears to have been set up primarily to purchase preferred stock, though any type of temporary investment was permitted.

Fourth, the investments were to be made on a selective basis. Some hazards would be taken, and some losses would undoubtedly arise, in accordance with the spirit of venture enterprise. But the risk position was to be restrained, while all invasion of the province of the banks or other investment institutions was to be avoided; the restricted yet supplemental position of the proposed fund was defined from the start.

Fifth, in formulating the administrative agency, the conferees decided that the proposed corporation should have a directorate of 15 leading businessmen, of whom 10 must vote affirmatively for the making of any investment. The contributors to the fund would elect the directors, but the Board of Trade would nominate them.[9] Thus, the business standards of investment would be perpetuated and the fund would remain in conservative hands.

Sixth, no single investment might amount to more than one third of the total capitalization of the client concern. Such capitalization was to exclude any valuation of copyrights, going-concern value, or other intangibles. This provision was made in order to obviate the danger that the Foundation might exert the control of a holding company over its client concerns, also to keep the fund from being called upon to supply the majority of capital for a completely new venture.

Seventh, not more than 10 per cent of the capital of the Foundation might be invested in any single concern. Since a million-dollar fund was contemplated, the maximum investment would be $100,000.[10] The purpose of this provision was to prevent an undue absorption of the fund by one or two large investments and to diversify the portfolio of risks.

Eighth, the Foundation would retain the right to be informed regarding the business affairs of client companies and also to appoint one of its own officials or directors to the directorate of a client concern.

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9 The Board of Trade was to name three tickets of directors, in order that the stockholders might have a choice. The stockholders also were entitled to make nominations. In fixing a one-year term for the board of directors, the planners made a mistake that was later revised. Since 1919, each director serves for three years, and one-third of the board is elected annually. This has proved to be a very workable arrangement.

10 Some difficulty later arose over this provision, for the fund proved partly uncollectible, amounting in 1921 to only $843,205. Meanwhile some loans of $100,000 had been made. The Foundation, by advice of the attorney who drafted the charter, has continued to regard $100,000 as the maximum investment, interpreting the word "capital" to mean authorized rather than paid-in capital.

Finally, the compromise course, midway between venture and safety, between incautious squandering and overcautious hoarding of the fund, was further embodied in several matters of detail that were written into the charter.

Whether or not the community fund would earn enough profits from its investments to be able to pay dividends to its contributors was a subject of considerable difference of opinion. Some of the conferees confidently expected that dividends would be paid. Others, including bankers in the group, recognized that, though profits might be earned in certain cases, the type of investment that was contemplated presented a considerable prospect of loss. It was decided, however, to incorporate for technical purposes of profit. Doubt existed as to whether a community fund for investment purposes could be legally incorporated on a non-profit basis. Some leaders doubted, moreover, whether a million-dollar fund could be raised from the public if dividends were not at least theoretically in prospect; and this practical desire for a successful fund drive apparently went far to determine the decision.

Such were the general standards set up by the business leaders of Louisville in advance of the drive for funds. In experience, one or two of these standards were to become somewhat modified. But the decisions, on the whole, proved wise, and the charter has not required amendment.

Raising the Community Fund

Louisville's drive for its "Million-Dollar Factory Fund" was typical of the high-pressure drives of the period. Under the direction of R. E. Hughes, a vigorous young promoter with banking experience, drive teams were organized by industry groups, by subgroups and by areas, to the end that no business establishment and no individual in Louisville might remain uncanvassed. The salesmen were trained and assigned to work in pairs. Employers agreed to canvass their employees.

Enthusiastically worded pamphlets were distributed and, with speeches and newspaper publicity, aroused public sentiment. One pamphlet gave figures purporting to show that if 10,000 additional wage earners were employed in the town, the result would be $9,000,000 in additional annual income of local business and trade. The appeal was at once to town patriotism and the pocketbook. "Good business judgment," said this pamphlet, "is the still, small voice that bids you act, for your city and for yourself."

The campaign was set for nine days beginning July 17, 1916. On its eve, the teams met at a rally and were given a "pep" leaflet and a pamphlet marked "confidential." The leaflet began, "COMPATRIOTS! Louisville's psychic hour booms! The tragic question is: Charge or Retreat? Our future chance is a bid for action!"

The confidential pamphlet gave some instructions in high-pressure salesmanship and dealt as follows with the matter of prospective profits:

Remember, you are not asking anybody to *give* anything. You represent a clean-cut business proposition in which citizens are invited to subscribe for shares of stock.

If you find someone who won't buy because he does not believe the capital will be kept intact or pay dividends, appeal to civic pride and get a subscription, although considered a donation.

Lay emphasis upon the responsibility of the men who will manage the Foundation.

In its technical aspects, the drive was a campaign to obtain signatures upon pledge notes. The notes were promises to buy stock in the Foundation, at $100 a share, and would become valid only if a total of one million dollars was pledged. If this goal was reached, the notes would become payable in semiannual instalments, over a five-year period. During the collection period, the subscriber would receive an interim certificate, privileged for voting. The final shares would be received upon completion of payment.

The drive moved rapidly, and on the ninth day the million-dollar goal was reached and passed, a total of $1,024,800 being pledged. For a community of the size of Louisville, this was a very large amount, averaging about $4 a person for the entire population. Subscribers numbered 3,118; subscriptions ranged from $100 to $25,000. Table 3 shows the types of subscriber that contributed the greater part of the fund.

The largest single subscribers were the Louisville Gas and Electric Company and the Louisville Railway Company. Each contributed $25,000. Thirty-six pledges of $5,000 to $15,000 were received, 17 from department stores and other large business enterprises and 19 from banks. The banks subscribed a total of $60,500, for the most part in $5,000 lots.[11] Of the merchants, 88 wholesalers and 583 retailers subscribed a total of $190,700. In the industrial group, 190 manufacturing concerns subscribed, evidently in the belief that manufacturing would benefit as a whole. Attorneys, doctors, dentists, and other professional men made moderate subscriptions, and barbers, florists, pawnbrokers, and other very small business concerns also subscribed.

The list, however, also included many individuals—clerks, salesmen, office secretaries, and other employed workers, as well as town residents, 37 of whom were classed as "widows." According to one classification, 2,185 miscellaneous individuals pledged a total of $421,200. By another classification, 2,042 subscribers each purchased a single $100 share.

This indiscriminate method of fund raising developed into a longstanding problem for the Foundation. In later years, some of these small subscribers were to visit the offices of the community fund and ask for their money back, saying that the salesmen had promised them dividends or that their employers had brought pressure upon them. In the heat of the campaign, some unwise promises were undoubtedly made and some extreme things done. The overselling process is recognized today in

11 Bank subscriptions to stock became illegal at a later date.

TABLE 3

SUBSCRIBERS TO THE ORIGINAL FUND OF THE LOUISVILLE INDUSTRIAL FOUNDATION BY OCCUPATIONAL CATEGORIES

Business Classification	*Number of Subscribers*	*Amount*
Banks	19	$ 60,500
Brick, tile, and cement companies	7	12,100
Brokers	39	15,700
Building contractors	49	12,800
Clerical workers	123	15,800
Clothing manufacturers	55	25,000
Department stores	4	25,000
Insurance companies and agents	69	24,000
Lawyers	150	30,200
Liquor and beer manufacturers	17	48,000
Lumber dealers	25	15,800
Lumber manufacturers	23	22,300
Managers of companies	110	21,000
Paint, varnish, and oil manufacturers	16	29,900
Physicians and surgeons	87	12,500
Presidents of corporations	123	64,500
Printers and lithographers	52	14,400
Real estate companies and agents	101	27,500
Retail grocers	118	17,600
Retail liquor and wine dealers	92	20,500
Secretaries and treasurers of corporations	110	24,600
Vice presidents of corporations	58	23,200
Wholesale drygoods companies	10	11,400
Wholesale hardware companies	6	23,500
Total Principal Subscribers	1,463	$ 597,800
Smaller Subscribers, business and individual	1,655	427,000
TOTAL	3,118	$1,024,800

Louisville as having been a mistake, because it tended to damage the later public relations of the Foundation. But there was also a more concrete consequence. About $200,000 of the individual subscriptions proved partly or wholly uncollectible, so that for several years the size of the capital fund was actually in doubt. Both results could have been avoided by limiting the solicitation of funds to those individuals and business concerns that were clearly in line to benefit from an increased industrial pay roll in the community.

Incorporation of the Foundation

The capital fund having been pledged, the articles of incorporation were filed and the Louisville Industrial Foundation came into legal existence on September 7, 1916. Its authorized capital was set at $1,100,000. The election of the first board of directors soon followed.[12] Offices were established in the Board of Trade building and the Foundation was ready to operate.

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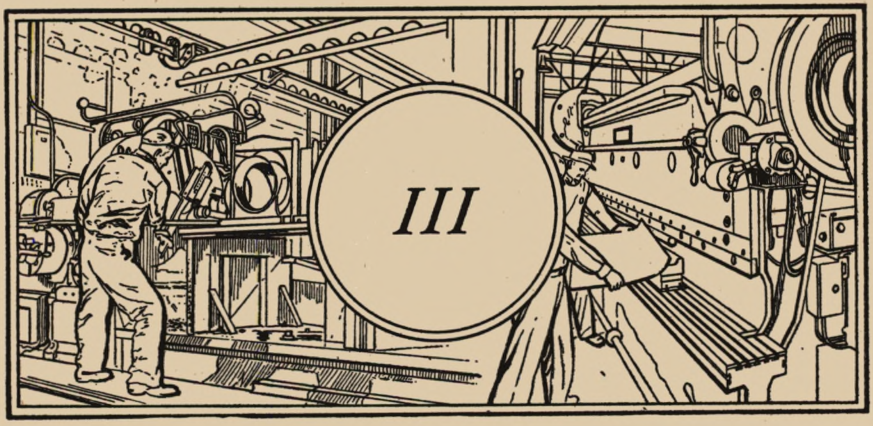
[12] Lewis R. Atwood was elected the Foundation's first president. Tampton Aubuchon was appointed secretary-manager. The original board of directors was made up as follows:

Lewis R. Atwood, paint and varnish manufacturer; John W. Barr, Jr., bank president; W. E. Caldwell, machinery manufacturer; V. H. Engelhard, coffee manufacturer; William Heyburn, hardware jobber; R. E. Hughes, bank executive; Charles F. Huhlein, implement manufacturer; Percy H. Johnston, bank president; Fred Levy, retail merchant; Donald McDonald, president of gas and electric company; Caldwell Norton, real estate broker; C. M. Phillips, secretary of title company; Fred M. Sackett, president of coal mining company; Embry L. Swearingen, bank president; Thomas Floyd Smith, president of paper company.



MAJOR PERIODS OF THE FOUNDATION'S DEVELOPMENT

The Four Major Periods

The development of the Foundation may be traced through four distinct and contrasting periods: (1) the experimental period, 1917-22; (2) the bull-market, 1923-29; (3) the depression, 1930-37; and (4) the years of recovery and war, 1938 to the present. The division into periods is based upon the fact that the directors' investment policies and practices altered significantly at the indicated times, as a result not only of the business cycle—with which the changes roughly corresponded—but of the cumulative trial-and-error experience of the Foundation itself.

The experimental period was characterized by the greatest assumption of hazards, including the founding of new and, in some cases, unsound industrial ventures. The bull-market years saw an increase in total investments above those in the first period, with a marked advance in soundness of risk selection and in the development of diversified and heavy industries. Losses, however, resulted in this second period from certain ventures of the first. The depression brought a dearth of new undertakings; during the early 1930's the Foundation was devoted primarily to supporting and salvaging its existing clients. The fourth period began with a revival of investment, primarily for the expansion of previously established enterprises, and culminated in a considerable amount of financing in aid of war production. During the entire time, gradual advances were taking place in the Foundation's techniques of risk appraisal, in its adoption of flexible and adaptive policies and terms, and in its rendition of service aids to client concerns.

The Experimental Period, 1917-21

At the beginning of operations, various difficulties had to be overcome. First, the capital fund came in slowly. By the end of 1916, only $100,907 of the pledged amount had been paid in; during 1917, only $179,729 more was received. The second full year, 1918, however, saw the total of paid-in capital mount to $455,909, and the time of stringency was passed. The fund totaled $620,374 at the end of 1919. But the additional collections during the following two years amounted to less than $100,000, and at the end of 1921, uncollectible pledges of more than $200,000 were written off,[13] principally those of small subscribers. Since operating deficits also had occurred, the total assets at this time amounted to only $817,634 instead of the anticipated $1,024,800.

A second difficulty arose from the natural expectation of the stockholders and the public that results of the fund would be immediately forthcoming. Actually, advertising the existence of the community fund and of the other industrial advantages of Louisville, considering the large number of queries and applications that began to flow in, and selecting the important initial investment, all involved considerable preliminary work. But the pressure for action was hard to withstand, and it is probable that at least some of the early instances of ill-considered investment were caused by the uneasy knowledge that the public was saying, "They've got a million-dollar fund—why don't they do something with it?"

The third major difficulty was the Foundation's early involvement in a labor dispute. Its initial transaction, made in June 1917, was a loan of $50,000 to an old-established garment factory that needed working capital. Just after the loan was made, a strike to unionize this plant occurred. A Foundation director, himself a textile manufacturer, plunged into the argument on the employer's side, and the developmental agency found itself attacked in labor circles as being a concealed open-shop fund.

This unanticipated complication led to conferences between the directors and the labor leaders and to the adoption of a resolution that might well have been included in the charter in the first place. The resolution disclaimed any involvement of the Foundation in labor disputes, deprecated strike action in time of war, and favored the peaceful arbitration of grievances. All subsequent contracts of the Foundation with client enterprises have in consequence contained the following protective clause:

> It is mutually agreed and understood that said party of the second part (the Foundation) shall not be a party in determining or adjusting relations or disputes between said party of the first part (the manufacturing concern) and its employees, or their representatives.

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[13] Additional payments continued to come in gradually for several years after 1921, until, finally, the paid-in capital amounted to $875,759.

The fourth important difficulty was, perhaps, the most serious of all. It involved the formulation of a policy that would apply to cases of joint investment in the same enterprise by the Foundation and by its directors or their associates and friends. The men who were chosen as trustees of the community fund were likely, in their business capacities, to be more or less closely associated with other local men of means. To have ruled out all personal investment by the friends of directors in enterprises partly capitalized from the community fund would have seriously reduced the desired flow of local capital into local enterprise; yet the director who advocated a Foundation investment in an enterprise in which an associate was interested was likely to be criticized, rightly or wrongly, for manipulating the community fund for private purposes. The greatest protection in this dilemma proved to be the charter provision that required an affirmative vote of 10 directors, or two thirds of the board, in order to ratify an investment. Also, it became established as an ethical tradition in the board that any interest of a director in a given transaction would be frankly declared and that a director whose vote might be open to criticism would refrain from voting on the particular matter. Subsequent experience of loss from investments that were supposedly backed by influential men further showed the practical wisdom of impartial lending standards.

In spite of these four types of difficulty—the slowness of capital payments, the public pressure to perform, the early strike involvement, and the troublesome question of influence—this first period brought a remarkable amount of new industrial activity and venture to previously somnolent Louisville. The widespread interest aroused by the forming of the fund, and the work of the Foundation as an industrial bureau, brought into the community 34 manufacturing enterprises, with total initial capital of $8,326,900, that required no financing. In addition, the Foundation financed 14 industrial enterprises and one civic situation, investing a total amount of $803,869, all of which was new money. These investments are summarized in table 4 and are listed in table 5 in their chronological order, together with the subsequent history of each account.

Of the 14 manufacturing enterprises that drew $728,869 in initial capital from the community fund in this period, 11 were new to Louisville, including six completely new ventures and five enterprises brought in from other points. In these 11 establishments the Foundation made initial investments of $513,869, or an average of $46,715 to the enterprise. Three additional investments, amounting to $75,000, also were made soon afterward in two of the same enterprises.

The six completely new ventures were set up to manufacture plywood, a newly invented business machine, school and other furniture, and an automobile body to go with a well-known make of car; one was to supply cold-storage service. Three of these new ventures—two that were based on products of limited sales appeal and one that had an inexperienced management—were to liquidate after a few years. Of the five brought-in concerns, one (the future Reynolds Metals Company) manufactured at

TABLE 4

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS EXPERIMENTAL PERIOD, 1917-22

Item	*Number*	*Amount*
TOTAL INVESTMENTS	18	$803,869
Initial investments in new undertakings	15	728,869
Completely new enterprises	6	361,058
Brought-in enterprises	5	152,811
Recently founded enterprise	1	15,000
Old-established enterprises	2	100,000
Civic situation	1	100,000
Additional investments in previous undertakings	3	75,000
Completely new enterprises [a]	1	10,000
Brought-in enterprise [a]	2	65,000
Refinancing of current accounts	----	----------
Accrued interest written off	----	----------
Capital loss written off	----	----------
TOTAL ASSETS, conclusion of period		$852,449

[a] At time of initial investment.

first an abrasive cleaning powder, later a container for gunpowder, and, later still, cigarette foil, aluminum, and many other products. Another made automobile parts, another dairy products; the latter developed a new industry in Louisville. One produced a recently invented variety of office desk, and the fifth was a branch oil refinery that is today of considerable size. The desk concern liquidated after eight years, but four of these enterprises became firmly established.

Louisville, of course, gained as a community even from those investments that were later to result in liquidations, absorptions, and losses to the Foundation and to private investors. The companies that did not survive created employment while they lasted, which was generally several years; also, the factory buildings erected for these enterprises from Foundation funds in all cases proved available for new manufacturing occupants and are used as factories today. Thus the four items of capital loss from industrial loans in the record of the community fund are rather to be regarded as involuntary subsidies, resulting in permanent expansion of Louisville's industrial facilities, than as outright losses.

The Foundation made three loans, totaling $115,000, to already established local industries. One was the garment factory that offered an initial difficulty in the form of a labor strike. The second was a cottonseed-oil plant affiliated with outside interests; the controlling group later encountered trouble, and the Louisville plant was taken over by a large national concern, which operates it today. The third was a young enterprise, locally owned, that was beginning to make electric tools and appliances and was ripe for its first expansion.

TABLE 5

LIST OF 15 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN THE EXPERIMENTAL PERIOD, 1917-22, WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

Type of Production	Description of Enterprise	First Investment Year	First Investment Amount	Additional Investment Year	Additional Investment Amount	Account Refinanced Year	Account Refinanced Amount	Interest Written Off Year	Interest Written Off Amount	Capital Loss Incurred Year	Capital Loss Incurred Amount
Garments	Old-established	1917	$50,000	—	—	—	—	—	—	—	—
Wood products	Completely new	1917	50,000	—	—	—	—	—	—	—	—
Cigarette foil	Brought-in	1918	30,000	—	—	—	—	—	—	—	—
Automobile parts	Brought-in	1918	25,000	1918	$15,000	—	—	—	—	1927	$55,309 [b]
				1921	50,000						
Petroleum refining	Brought-in	1918	50,000	—	—	—	—	—	—	—	—
Cottonseed products	Old-established [c]	1918	50,000	—	—	—	—	1940	$19,500 [c]	—	—
Dairy products	Brought-in	1918	24,236	—	—	—	—	—	—	—	—
Business equipment	Completely new	1919	65,000	1928	90,000	1940	$60,700	—	—	—	—
				1940	15,000						
School furniture	Completely new [d]	1920	30,157	1927	7,500	1927	22,500	—	—	1930	9,301
Wood products	Completely new [e]	1920	100,000	—	—	—	—	—	—	1929	99,945
(Teachers' Salaries)	(Board of Education)	1920	100,000	—	—	—	—	—	—	—	—
Patent desks	Brought-in [f]	1920	23,575	—	—	—	—	—	—	—	—
Cold-storage plant	Completely new [g]	1921	94,383	—	—	1926	77,883	—	—	1930	44,466
Automobile bodies	Completely new [h]	1921	21,518	1922	10,000	—	—	—	—	—	—
Electrical devices	Recently founded	1921	15,000	1924	10,000	1924	15,000	—	—	—	—
				1932	10,000						
				1937	7,500						
TOTAL, 15 FINANCINGS			$728,869		$215,000		$176,083		$19,500		$209,021

a Except as otherwise noted, enterprises were in operation under original ownership in 1944.
b Enterprise remained in operation.
c Absorbed into multiestablishment company, 1925; remained in operation.
d Liquidated, 1930.
e Liquidated, 1926.
f Liquidated, 1928.
g Absorbed into multiestablishment company, 1930; remained in operation.
h Liquidated, 1926.

An emergency civic service also was performed. Just before Christmas 1920, the local Board of Education found itself without funds to pay its teachers' salaries. Although the charter had omitted to provide for investments of a civic nature, the Foundation lent the Board of Education $100,000 on a 30-day unsecured note at 2 per cent flat interest. No stockholder objected, and the loan was duly repaid from tax moneys.

Thus, of the total amount of $803,869 invested from the community fund in its initial six-year period, $703,869 went into manufacturing concerns. The appraisals of risk were not always sound. Nevertheless, at no later time was the community fund more experimentally and venturesomely applied than it was in the years 1917-22.

In regard to the technic of investment, the preconceived ideas of the directors toward the end of this period underwent a change. Of the 14 manufacturing investments, 5 were purchases of preferred stock yielding 7 per cent; 2 were loans on security of preferred stock; 1, a purchase of bonds; 1, a loan on security of bonds; and 3 were loans on endorsed notes. But as some of the enterprises began to falter, the possibility of their liquidation called attention to the weakness of the preferred-stock position. In 1921, two loans were made on first-mortgage collateral of land, buildings, and equipment; thenceforth, the first-mortgage term loan was to become the standard deal. (The largest instance of loss in the record of the Foundation, that of $99,945 on a single $100,000 transaction, developed from a preferred-stock investment.)

In the latter part of the experimental period, a change in management occurred. The first secretary-manager, Mr. Aubuchon, resigned at the end of 1919. He was succeeded in March 1920 by Frank B. Ayres, who still, after 24 years, is secretary-treasurer of the Foundation. Mr. Ayres had been in railroad developmental work, first with the Missouri Pacific, then with the Southern Railway System. He was thoroughly familiar with the Foundation, since he had participated in the initial planning and also, in his railroad connection, had been instrumental in bringing the infant Reynolds concern to Louisville and placing it in contact with the development services of the Foundation.

When Mr. Ayres assumed his new duties, the investments that were to occupy the remainder of 1920 and 1921 were already under consideration. These were carried through but took the form of secured loans. At the end of 1921 the directors wrote off about $200,000 in uncollectible subscriptions, and during 1922 they authorized no further investments but reconsidered the entire situation of the organization. Mr. Ayres placed the industrial bureau upon a systematic basis, and in 1921 and 1922 the Foundation brought in, without any use of its own capital, 10 manufacturing establishments, having a total capital of $3,552,500.

The Bull-Market Period, 1923-29

The bull-market period of the Foundation's history began in 1923 and extended through 1929. With the beginning of this period, the Foundation made a new start. Although speculative excesses characterized those years for the nation as a whole, the policies of the Foundation were put on an increasingly sound basis. More rigid standards of acceptance were adopted, and a greater emphasis was placed upon the development of heavier industry, upon the creation of employment for skilled labor, and, especially, upon the diversification of the local manufacturing structure. A beginning was made in the adaptation of loan-repayment schedules to the debt-paying ability of the borrowers. This change included the abandonment of annual or semiannual payments in favor of monthly payments, since the longer intervals had proved to be a cause of defaults. Finally, the investments were almost exclusively term loans on the basis of first-mortgage security.

The transactions of this period are summarized in table 6. In dollar volume, the Foundation's activity exceeded that of the first period. The number of its new manufacturing undertakings, namely 15, was larger by 1, and the average amount of initial capital was slightly larger, namely $48,315. All investments amounted to $957,611, and investments of new money totaled $842,228. Five new industrial beginnings were financed, 6 industries were brought in from other points, and 4 previously existing local industries were aided, all by capital loans. In the 15 new accounts, the Foundation invested $724,728 of initial money.

The completely new ventures, listed in table 7, were a toy-balloon factory, a hosiery mill, an independent oil refinery, a metal-stamping plant, and a macaroni factory. The six brought-in enterprises were a manufacturer of iron accessories for railroads, a shoelace factory, a manufacturer of water heaters for dwellings, a metal-enameling plant, and two companies that helped to make Louisville a bakery-products center. The Foundation also loaned $151,000 in new money for the expansion of four previously established local enterprises: one that built pipe organs for churches and motion-picture houses and was overburdened with work at the time, a fabricator of bridge iron and structural steel, a maker of bedsprings and spring mattresses, and a former brewery affiliate that had been taken over by new management and was beginning to make machinery for dehydration purposes.

While four of the 15 undertakings of this period were ultimately to liquidate, only one of the four cases—that of the hosiery plant, which lasted but three years—could be regarded as an instance of dubious appraisal by the Foundation. The rise in the world rubber price, which caused the toy-balloon factory to shut down in 1927, could hardly have been foreseen; and liquidation of the railroad-iron and pipe-organ concerns did not occur until 1942 and 1944 respectively. No capital loss to the Foundation resulted from any of these 15 investments, partly because the credits were well secured but even more because the appraisals of investment risk had generally been sound in advance. Three criteria were being applied before a financial undertaking was made.

First, in all cases excepting that of the hosiery plant, the managements

TABLE 6

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS BULL-MARKET PERIOD, 1923-29

Item	*Number*	*Amount*
TOTAL INVESTMENTS	22	$957,611
Initial investments in new undertakings	15	724,728
Completely new enterprises	5	243,062
Brought-in enterprises	6	330,666
Recently founded enterprise	1	15,000
Old-established enterprises	3	136,000
Additional investments in previous undertakings	4	117,500
Completely new enterprises [a]	2	97,500
Brought-in enterprise [a]	1	10,000
Recently founded enterprise [a]	1	10,000
Refinancing of current accounts	3	115,383
Completely new enterprises [a]	2	100,383
Recently founded enterprise [a]	1	15,000
Accrued interest written off	----	----------
Capital losses written off	2	155,254
Completely new enterprise [a]	1	99,945
Brought-in enterprise [a]	1	55,309
TOTAL ASSETS, conclusion of period		$884,354

[a] At time of initial investment.

were well qualified, not only in the technical work of production but quite as importantly in knowledge of the market and in the art of selling. Also, all these managers held some degree of ownership in their businesses and were of the hard-working type, willing to make modest withdrawals and undergo other personal sacrifices for the sake of upbuilding their enterprises.

Second, the list of products included none that was strictly new or unfamiliar. The risk of financing inventions that required initial market establishment had become evident from the experiences of the first period. Most of the companies that were financed in the second period produced quality variants of familiar products.

Third, in the financing of one-purpose concerns, care was taken to make sure that the market prospects were reliable. In cases such as the machinery-making and metal-working concerns, that sold durable goods to a limited business market, the specific marketing contacts were closely examined. In the case of nondurable products, such as those of the toy balloon, shoelace, baking, and macaroni plants, the markets were of the type that involved sales in small lots to a large number of consumers and had a high factor of replacement sales. Some of the best results were obtained from this type of sales situation.

TABLE 7

LIST OF 15 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN BULL-MARKET PERIOD, 1923-29, WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

Type of Production	*Description of Enterprise*	*First Investment*		*Additional Investment*		*Account Refinanced*		*Interest Written Off*		*Capital Loss Incurred*	
		Year	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*
Railroad metal	Brought-in [b]	1923	$25,000	—	—	—	—	—	—	—	—
Drying machinery	Recently founded	1923	15,000	—	—	—	—	—	—	—	—
Toy balloons	Completely new [c]	1924	39,000	—	—	—	—	—	—	—	—
Shoelaces	Brought-in	1924	62,728	1932	$ 3,500	1930	$29,780	—	—	—	—
Hosiery	Completely new [d]	1924	50,000	—	—	—	—	—	—	—	—
Petroleum refining	Completely new	1925	50,000	—	—	—	—	—	—	—	—
Pipe organs	Old-established [e]	1925	60,000	1940	7,500	1930	30,000	—	—	—	—
						1939	34,900				
Structural steel	Old-established	1925	60,000	—	—	—	—	—	—	—	—
Water heaters	Brought-in	1925	100,000	1932	25,000	1932	56,000	1943	$ 6,628	—	—
Bakery products	Brought-in	1926	60,000	1927	10,000	1934	19,800	—	—	—	—
				1934	50,000						
Bakery products	Brought-in	1927	33,000	—	—	—	—	—	—	—	—
Enameled metal	Brought-in [f]	1927	49,938	1939	10,000	1939	45,934	1934	13,596	—	—
				1941	30,000						
				1941	13,500						
Stamped metal	Completely new	1927	54,062	1933	5,000	1933	54,218	1941	12,575	—	—
				1942	40,000						
Bedsprings	Old-established	1928	16,000	—	—	—	—	—	—	—	—
Macaroni	Completely new	1929	50,000	1930	12,500	—	—	—	—	—	—
				1931	10,000						
				1934	15,000						
TOTAL, 15 FINANCINGS			$724,728		$232,000		$270,632		$32,799		

[a] Except as otherwise noted, enterprises were in operation under original ownership in 1944.
[b] Liquidated, 1942.
[c] Liquidated, 1927.
[d] Liquidated, 1927.
[e] In liquidation, 1944.
[f] Became independent of original controlling group, 1934; formed new company with metal-sundries company, 1935.

Just as the Foundation's experience was proving that the retirement of its investments depended ultimately upon good management and upon sales, so also it was becoming evident that intimacy of contact with its client enterprises was essential to the safety of the community fund. In the earlier years, the organization had been content to place a member of its board of directors upon the directorate of a client company. But this degree of representation failed to provide a sufficiently close contact with the business situations; difficulties developed at times, as to which the directors were not adequately informed. Mr. Ayres became secretary of his first client company toward the end of this period, and in other ways the Foundation began to take a greater interest in its client enterprises and to lay the basis for its later and more constructive policies of loan support.

But financial troubles were developing. Several of the earlier undertakings had begun to falter as early as 1922. A summary of the first 19 manufacturing investments, made in December 1924, disclosed that seven accounts, all dating back to the previous period, had become delinquent in their principal payments. The Foundation felt itself committed to support these ventures and continued to do so; additional loans, totaling $117,500, were made in four cases in order to bolster previous investments. Three accounts were refinanced, for a total amount of $115,383. Several informal time extensions were granted. Nevertheless, toward the end of the bull-market period, two serious capital losses occurred. The automobile-parts company in 1929 experienced a reorganization that involved a write-off of $55,309 by the Foundation. A wood-products enterprise liquidated, creating a further loss of $99,945. Because of these losses and the various delinquencies in interest payments, the assets of the institution showed a gain for the seven-year period of only $31,905, amounting in 1929 to $884,354. However, more than 20 prosperous undertakings were successfully repaying their capital loans, and the industrial structure of the community had been lastingly enlarged and improved. Industries that had been developed for Louisville without financing during the bull-market years numbered 23 and had total capital amounting to $6,530,000.

The Depression Period, 1930-37

The collapse of stock-market values in late 1929 and the ensuing business depression were reflected in the Foundation's operations. When the depression began, the directors were in a conservative frame of mind. The national crisis contributed to this attitude, and, in addition, losses were incurred in 1930, on top of those of 1929. The school-furniture concern failed, causing a write-off of $27,450, later reduced by recoveries to $9,301. Almost simultaneously, the cold-storage enterprise faltered and was absorbed by a large competitor; the Foundation foreclosed to protect its investment of $77,383 and in the end wrote off a loss of $44,466. Moreover, on November 17, 1930, the National Bank of Kentucky closed its doors; the Foundation, at the time, had a deposit of $95,835 in this bank.[14]

These losses created a "hold everything" attitude on the part of the board. There was little effort to pursue an investment policy counter to the business cycle. Loans were indeed sought, but, in conformity with the psychology of the period, few applications were held acceptable. These businessmen felt themselves to be trustees of the comunity fund; they were determined to bring that fund out of the depression intact. The investments accordingly emphasized the preservation of existing industry above the creation of new. Also, as is shown in table 8, the total amount of Foundation financing was markedly reduced.

In contrast with the 15 undertakings of the first period and the 15 of the second, only five additional situations were entered by the Foundation during the eight years of the third period, and only $173,300, or an average amount of $34,660, was invested in these undertakings. Table 9, in which the new commitments are listed, shows that they included only one completely new enterprise, a baking concern, and only one brought-in industry, a small metal-sundries factory. The Foundation loaned $50,000 to modernize an old-established printing concern and made two new investments, totaling $65,300, in recently established local industries of the immature variety. These undeveloped enterprises were, respectively, a building materials and wood-products concern. Both had been previously founded by personal proprietors, capitalized on the proverbial shoestring, and nursed along by earnings to the point of potential expansion. The experience of the Foundation was beginning to show the favorable quality of this type of investment, which had superior aspects of safety, involved quick creation of new employment, and required only a minimum amount of capital.

Additional new money was needed during the depression by nine of the previous client concerns. Some of them required more than one supporting loan, so that 12 secondary loans were made, amounting to $158,250. The refinancing of old accounts constituted the largest item of investment; seven such refinancings totaled $225,848. In other words, of a gross total of $557,398 invested during the eight-year period, $384,098, almost 70 per cent, was devoted to the maintenance of existing industries rather than to industrial expansion.

The capital losses of the institution during the depression were not large. They were confined to the losses sustained in 1930, minus the recoveries that later occurred. While several accounts dragged along,

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[14] In 1931 the depositors of the National Bank of Kentucky received two thirds of their deposits, the Foundation recovering $64,210. The balance of $31,305 was written down to $1 on the Foundation's books. But in 1939, $9,584 was recovered, leaving a nonbook asset of $21,721 that is still unrecovered. The United States Supreme Court decided, on March 8, 1944, that stockholders of Banco Kentucky, the parent holding company, were liable to the extent of $2.31 a share and for interest since 1936 on obligations of the National Bank of Kentucky. Under this decision, the Foundation may recover additional amounts.

TABLE 8

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS DEPRESSION PERIOD, 1930-37

Item	*Number*	*Amount*
TOTAL INVESTMENTS	24	$557,398
Initial investments in new undertakings	5	173,300
Completely new enterprise	1	40,000
Brought-in enterprise	1	18,000
Recently founded enterprises	2	65,300
Old-established enterprise	1	50,000
Additional investments in previous undertakings	12	158,250
Completely new enterprises [a]	4	42,500
Brought-in enterprises [a]	3	78,500
Recently founded enterprises [a]	5	37,250
Refinancing of current accounts	7	225,848
Completely new enterprise [a]	1	54,218
Brought-in enterprises [a]	3	105,580
Recently founded enterprises [a]	2	36,050
Old-established enterprise	1	30,000
Accrued interest written off	1	13,596
Brought-in enterprise [a]	1	13,596
Capital losses written off	2	53,767
Completely new enterprises [a]	2	53,767
TOTAL ASSETS, conclusion of period		$889,191

[a] At time of initial investment.

others paid interest and principal promptly, and no enterprise that was supported by the Foundation was liquidated in this period after 1930. Total assets of the institution in 1937 were $889,191, compared to $884,354 at the end of 1929. Not only had the fund survived the depression intact, but it had slightly increased in size, and had maintained its client enterprises as well. Also, by its contact and informational work, the Foundation in this period was instrumental in bringing to Louisville 11 manufacturing concerns, with $407,000 total capital.

The increased recognition accorded to the existing but small and undeveloped enterprises during this period may be regarded as an advance in standards of appraisal. Also, there were two additional developments in flexible financing. As the straight-line monthly payments proved too rigid for some enterprises to bear, lower payments were arranged for the earlier stages of the accounts, then graded upward, in anticipation of an upswing. A director suggested to Mr. Ayres, in 1937, that there should also be a means of increasing the Foundation's income above the fixed interest return when a client enterprise was earning profits. This suggestion led to the requirement, in the loan contract, that, in addition to the regular payments, a certain percentage of each previous

TABLE 9

LIST OF 5 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN DEPRESSION PERIOD, 1930-37, WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

		First Investment		*Additional Investment*		*Account Refinanced*		*Interest Written Off*		*Capital Loss Incurred*	
Type of Production	*Description of Enterprise*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*
Metal sundries	Brought-in [b]	1930	$18,000	——	——	1939	$13,566[b]	——	——	——	——
Building materials	Recently founded	1931	50,000	1932	$ 3,000	——	——	1943	$5,596	——	——
Wood products	Recently founded	1933	15,300	1936	11,750	1936	13,250	——	——	——	——
				1937	5,000	1937	22,800				
Printing	Old-established	1935	50,000	——	——	——	——	——	——	——	——
Dairy products	Completely new	1935	40,000	——	——	——	——	——	——	——	——
TOTAL, 5 FINANCINGS			$173,300		$19,750		$49,616		$5,596		

[a] Except as otherwise noted, enterprises were in operation under original ownership in 1944.
[b] Merged with enameled-metal company, 1935.

TABLE 10

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS RECOVERY-AND-WAR PERIOD, 1938-44 (June 30)

Item	*Number*	*Amount*
TOTAL INVESTMENTS	26	$984,400
Initial investments in new undertakings	11	645,000
Completely new enterprise	1	50,000
Brought-in enterprise	----	------------
Recently founded enterprises	4	154,000
Old-established enterprises	5	341,000
Civic situation	1	100,000
Additional investments in previous undertakings	11	181,300
Completely new enterprises [a]	2	55,000
Brought-in enterprises [a]	3	53,500
Old-established enterprises [a]	6	72,800
Refinancing of current accounts	4	155,100
Completely new enterprise [a]	1	60,700
Brought-in enterprises [a]	2	59,500
Old-established enterprises [a]	1	34,900
Accrued interest written off	4	44,299
Completely new enterprise [a]	1	12,575
Recently founded enterprise [a]	1	5,596
Old-established enterprise [a]	1	19,500
Brought-in enterprise [a]	1	6,628
Capital losses written off	----	------------
TOTAL ASSETS, conclusion of period		$983,659

[a] At time of initial investment.

year's net profits be paid on account, to be applied to the retirement of the mortgage instalments of the most distant maturities. This recapture clause has the merit of increasing the liquidity of the fund, but it also operates to diminish the duration of debts and, to that extent, reduces the Foundation's income from interest payments.

Another important development of the period was the final expansion in the Foundation's personnel. The president of the organization had always been a businessman with broad connections in the financial, industrial, and civic life of Louisville. The late John W. Barr, Jr., had served for many years in this capacity, and J. C. Engelhard, long a member of the executive committee, had also been president. In 1934 it was decided to retain a full-time president, and on January 20 of that year the directors elected William B. Harrison in that capacity at the conclusion of his term as mayor of Louisville. Mr. Harrison had taken a leading part in many public and civic activities as well as in the business field. On one occasion, he was a gubernatorial candidate in Kentucky. Mr. Harrison today not only serves as president of the Louisville Indus-

TABLE 11

LIST OF 11 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN RECOVERY-AND-WAR PERIOD, 1938-44 (June 30), WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

Type of Production	Description of Enterprise	First Investment Year	First Investment Amount	Additional Investment Year	Additional Investment Amount	Account Refinanced Year	Account Refinanced Amount	Interest Written Off Year	Interest Written Off Amount	Capital Loss Incurred Year	Capital Loss Incurred Amount
Food specialties	Recently founded	1938	$10,000	—	—	—	—	—	—	—	—
Wood products	Old-established	1938	56,000	1940	$ 8,800	—	—	—	—	—	—
				1942	12,000						
				1944	12,000						
Printing	Old-established	1939	100,000	—	—	—	—	—	—	—	—
Work garments	Recently founded	1939	30,000	1940	— [b]	—	—	—	—	—	—
Cotton rope	Old-established	1939	75,000	—	—	—	—	—	—	—	—
Bakery products	Old-established	1940	35,000	1941	15,000	—	—	—	—	—	—
Metal foil	Completely new	1940	50,000	—	—	—	—	—	—	—	—
Food specialties	Old-established	1940	75,000	—	—	—	—	—	—	—	—
Packed poultry meat	Recently founded	1940	14,000	1943	17,500	—	—	—	—	—	—
(New public airport)	(City-County Air Bd.)	1941	100,000	—	—	—	—	—	—	—	—
Radio cabinets	Recently founded	1943	100,000	—	—	—	—	—	—	—	—
TOTAL, 11 FINANCINGS			$645,000		$65,300						

[a] All enterprises were in operation under original ownership in 1944.
[b] Current working-capital account, on security of accounts receivable. Amount of credit varies.

trial Foundation but as a director of several of its client companies and of various civic organizations, and also he is chairman of the board of one of Louisville's largest wood-products manufacturing establishments.

The Recovery and War Period, 1938 to the Present

With the beginning of 1938, the Foundation's activity revived. Attractive pamphlets were published for the purpose of advertising Louisville and its industrial advantages. In the years 1938 and 1939 alone, 156 per cent as much investment was made, and as many new situations were entered, as in the preceding eight years. That the financial activities of the present period have been the greatest, on annual average, of any period in the history of the community fund, is shown in table 10.

This increased rate of activity has since continued. The situations entered since 1937 are listed in table 11. From January 1, 1938, to June 30, 1944, the Foundation made 11 new undertakings, in which it placed initial investments of $654,000.[15] The average initial investment was $58,636, the largest such average for any period. Additional new money for previous situations amounted to $181,300, bringing the total investments of new money to $826,300. Though this financial activity exceeded even that of the bull-market period, the emphasis of investment showed a significant change.

No importations of industry were capitalized. Of the 11 financings undertaken, only one was a newly established venture, and one was a public or civic situation. Thus nine already-existing enterprises were financed, and of these, five were old-established companies, to which the Foundation loaned $341,000, in most cases to capitalize on expansion for war work. The remaining four were existing but undeveloped enterprises; these were expanded by loans amounting to $154,000, and three of them were made eligible for war contracts. By financing wartime expansions, in the total amount of $495,000, the Foundation performed a significant service and undoubtedly brought about a greater increase in employment than it would have done by an equal investment in new industries or importations at the time.

The mature enterprises were manufacturers of wood products, bakery products, food products, and cotton cordage, and a printing concern. The recently founded enterprises that were expanded produced work garments and uniforms, wood products, and processed foods for military use. One undeveloped and one new enterprise, a radio-cabinet and a metal-foil concern, respectively, encountered material shortages and engaged in war production while waiting for the supply situation to become normal.

One of the most important investments of the Foundation, made in 1941, not only was instrumental in giving Louisville its second airport

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[15] One current financing, unique in the Foundation's record, is omitted from these figures.

TABLE 12

TOTAL INVESTMENTS OF THE LOUISVILLE INDUSTRIAL FOUNDATION, 1917-44 (JUNE 30), BY PERIODS AND BY TYPES OF INVESTMENT

Period	Total Investments No.	Total Investments Amount	Investments of New Money No.	Investments of New Money Amount	Initial Investments No.	Initial Investments Amount	Additional Investments No.	Additional Investments Amount	Refinancing Investments No.	Refinancing Investments Amount	Write-offs of Interest No.	Write-offs of Interest Amount	Capital Losses No.	Capital Losses Amount
Experimental, 1917-22	18	$ 803,869	18	$ 803,869	15	$ 728,869	3	$ 75,000	—	—	—	—	—	—
Bull-Market, 1923-29	22	957,611	19	842,228	15	724,728	4	117,500	3	$115,383	—	—	2	$155,254
Depression, 1930-37	24	557,398	17	331,550	5	173,300	12	158,250	7	225,848	1	$13,596	2	53,767
Recovery-and-War, 1938-44	26	981,400	22	826,300	11	645,000	11	181,300	4	155,100	4	44,299	—	—
TOTAL	90	$3,300,278[a]	76	$2,803,947	46	$2,271,897	30	$532,050	14	$496,331	5	$57,895	4	$209,021

[a] One current financing for working-capital purposes is omitted from these figures, accounting for the differences between this total and the total of $3,849,045 reported by the Foundation on June 30, 1944.

TABLE 13

INVESTMENTS OF NEW MONEY, INITIAL AND ADDITIONAL, BY THE LOUISVILLE INDUSTRIAL FOUNDATION, 1917-44 (JUNE 30), BY PERIODS AND BY STATUS OF ENTERPRISE AT TIME OF INITIAL INVESTMENT

Period	Total Investments of New Money No.	Total Investments of New Money Amount	In Completely New Enterprises No.	In Completely New Enterprises Number	In Brought-in Enterprises No.	In Brought-in Enterprises Amount	In Recently Founded Enterprises No.	In Recently Founded Enterprises Amount	In Old-established Enterprises No.	In Old-established Enterprises Amount	In Civic Situations No.	In Civic Situations Amount
Experimental, 1917-22	15	$ 803,869	6	$371,058	5	$217,811	1	$ 15,000	2	$100,000	1	$100,000
Bull-Market, 1923-29	15	842,228	5	340,562	6	340,666	1	25,000	3	136,000	—	—
Depression, 1930-37	5	331,550	1	82,500	1	96,500	2	102,550	1	50,000	—	—
Recovery-and-War, 1938-44	11	826,300	1	105,000	—	53,500[a]	4	154,000	5	413,800	1	100,000
TOTAL[b]	46	$2,803,947	13	$899,120	12	$708,477	8	$296,550	11	$699,800	2	$200,000

[a] Additional investment in previous undertaking.
[b] Omitting one current financing.

but indirectly helped to bring in two large aircraft factories. The organization acted in an interim capacity in the airport transaction, financing the City-County Air Board to the purchase of the site of Standiford Field, and enabling the site to be leased to the Civil Aeronautics Authority. The Foundation's investment of $100,000 in this airport transaction was its second venture in a public or civic situation; the first had been the financing of teachers' salaries in 1920.

The industrial bureau also performed the important service of supplying data that led to the establishment of important war industries in Louisville. One of these war establishments more than doubled the total capital value of the manufacturing enterprises whose presence in the area previously had been ascribed to the informational work of the organization.

War prosperity came to most of the manufacturing clients; seven accounts were retired in full, some of them of many years' standing. The Foundation aided one of these retirements by writing off accrued interest of $19,500. The propserity of the times also reduced the refinancings, which numbered only four and totaled but $155,100. No capital losses were sustained. Two liquidations that occurred in 1942 and 1944, those of the railroad-metal and pipe-organ concerns, resulted from wartime conditions.

The rendition of business services by the Foundation to its client enterprises attained full development in this period. These aids have been of whatever nature a particular concern might require at a particular time and have frequently been emergency aids. To find a more intimate creditor-debtor relationship than that which exists between this quasi-public corporation and many of its clients today would be difficult indeed. Some manufacturing managers and proprietors in Louisville have found the services of the organization almost indispensable.

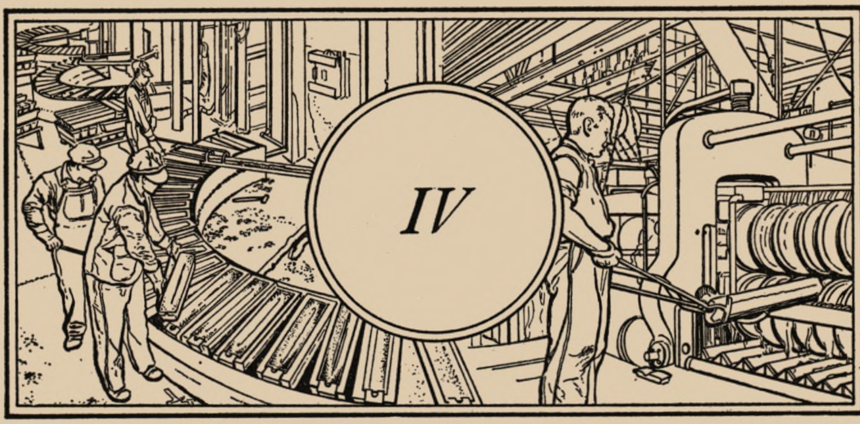
Including investments of $567,698 in Louisville industries, the Foundation's assets totaled $983,659 on June 30, 1944. Fourteen accounts were still current. A reserve of $90,000 had been established against possible future losses. Liquid assets included $26,245 in cash and $373,100 in securities, mainly United States Government bonds. Louisville's community fund, formed in 1916, in 1944 was ready to meet the problems of the approaching readjustment period on an expanded basis financially and with the experience of 28 years as a guide to its administration.

Summary of the Investment Activities

The total investment history of the Foundation is summarized in tables 12 and 13. Table 12 shows the grand total of term investments as having been $3,300,278, the amount of one current financing being omitted. Of this total, the initial investments have amounted to $2,271,897, and the additional investments in the same enterprises to $532,050, making $2,603,947 of new money that was supplied from the community fund to 44 manufacturing concerns and $200,000 to two civic situations. Since eight of the manufacturing companies were liquidated and one was merged with an associated concern, these manufacturing investments have been instrumental in creating or maintaining 35 industrial establishments that are operating at the present time. To this number may be added two large aircraft plants that were developed indirectly by the airport financing, the 69 civilian factories to which industrial information was supplied, and two additional wartime developments for which preliminary studies were made.

Table 12 shows that the refinancing investments amounted to $496,331, or 19.0 per cent of the total new money supplied to manufacturing clients. Total capital losses in 28 years amounted to $209,021, or 8 per cent of the total of new manufacturing capital provided. All losses were incurred from undertakings of the first six years. Write-off of accrued interest amounted to $57,895, or 2.1 per cent of the manufacturing capital invested.

Table 13 shows that the Foundation has provided funds to 13 completely new, 12 brought-in, 8 recently founded, and 11 mature industrial enterprises, and to 2 civic situations. Of the total new money invested, whether initially or at a later period, 32.1 per cent has been invested in manufacturing ventures that were completely new at the time the Foundation undertook their financing; 25.3 per cent in brought-in concerns; 10.6 per cent in recently founded enterprises; 25.0 per cent in old-established enterprises, and 7.0 per cent in civic situations. In the successive periods, the emphasis of investment has shifted gradually away from the new and brought-in enterprises to the recently founded and old-established types of concern. The proceeds from the investments financed the work of the industrial bureau, paid the Foundation's entire costs, covered all losses, and increased the capital fund by $107,900.



THE FOUNDATION AT WORK

Varied Character of the Case Record

In order to illustrate the working methods of the Foundation and the general strategy by which its capital was applied, a selection of several cases is necessary. So much variation and contrast is found in the detailed records of the 46 accounts that no single case may be regarded as typical. This diversity among situations and experiences, far from being a matter of accident, was intrinsic in the character of the Foundation and of the supplemental financial function that it performed. The community fund in the first place entered only those off-standard situations to which the normal and customary standards of financing did not apply. Initial variations further arose because the institution purposely was using its capital in an attempt to diversify the manufacturing economy of Louisville. But an even greater significance attaches to the sudden and often incalculable changes that affected many of the accounts during the long periods of loan retirement. These subsequent changes were the direct result of the fact that the Foundation was making term loans in one of the most flexible and fluctuant of all investment fields, that of small business. Time after time, individual decisions of personal proprietors or their keymen, changes in the character of the financial backing, and above all the abrupt upward or downward variations of localized and specialized markets, altered the status of accounts that had appeared to be at least measurably standardized and calculable. It was not from any theory, but from the dictates of its repeated experience with small business, that the organization came to regard unforeseen change as probable and to stand ready to adapt its financial and service policies to the volatile nature of its investment field.

The cases that follow are selected primarily because they show the

Foundation at work. Since the connection of the community agency with its client enterprises was on the whole a temporary one, often occurring at some turning point in the life of an enterprise, the following summaries of investment experiences are not to be regarded as complete histories of the enterprises themselves. What resulted in general from the access to loan capital is, however, generally indicated.

Cleaning Powder, Tobacco Foil, Aluminum

F. B. Ayres, as industrial agent of the Southern Railway, in 1917 performed the developmental feat of inducing R. S. Reynolds and his two brothers, rising young industrialists, to move their original manufacturing venture to Louisville. Mr. Ayres in doing this was impelled by his desire to assist the new Foundation, the formation of which he had observed with interest during the previous summer. Inasmuch as this incipient Reynolds enterprise was destined to become the industrial backbone of Louisville and to develop into the $91,000,000 Reynolds Metals Company of the present day, the Foundation may be said to have obtained the greatest of all its results indirectly, through the good offices of a friendly railroad man, even before it had made its first loan. Records, however, also show that in 1918 the Foundation further aided the expansion of the growing young Reynolds corporation by a temporary capital loan.

The Reynolds brothers, nephews of R. J. Reynolds, the tobacco manufacturer, had gone into business independently, selecting Bristol, Tennessee, as their first location. They established a plant and manufactured a brand of household cleaning powder on a formula of their own. Their venture prospered; a second plant was soon added; the product became established against strong competition in the markets of 18 major cities. Then, in December, 1916, both the Bristol plants were destroyed by fire within a week's time.

Instead of abandoning their business, the brothers promptly went in search of a vacant factory. In St. Louis, while conferring with a group of railroad men, they met Mr. Ayres. The industrial agent first took them to see some locations in East St. Louis, none of which proved suitable. Then he suggested that they consider Louisville, where many plants were vacant. He apprised them of the possibility of obtaining capital from the newly formed Foundation and read from his notebook the description of a certain building in Louisville that seemed to fit their needs. As a result, the brothers left for Louisville that night. Ayres, following, escorted them to the building in question, which they leased on January 4, 1917.

This building today is preserved by the Reynolds Metals Company as an industrial landmark. In it the brothers resumed the manufacture of the cleaning powder and earned enough profits to buy the structure, paying for it in six months' time. Then a second setback occurred. Under a wartime order from Washington, the company was deprived of materials and was forced to discontinue operations.

R. S. Reynolds met this second blow by inventing a paper drum for shipping gunpowder overseas. It was based upon the moisture-proof container that had held the cleaning powder. The device cost 52 cents, replaced an expensive metal container, and was bought by the Government in large quantities. Plant expansion became necessary, and the Foundation now served directly. A Louisville bank, in April 1918, arranged a term loan of $30,000 for enlargement of the Reynolds plant, the loan actually being made by the Foundation. The increased earnings enabled this loan to be retired in full in October 1918.

When the war contract terminated, the brothers turned to the manufacture of tobacco foil and, in 1919, incorporated the United States Foil Company. This enterprise, too, soon needed expansion capital, and in May 1920, the Foundation was again applied to, this time for a $100,000 temporary investment in preferred stock of the new corporation. The deal was authorized and the contract was drawn by Mr. Ayres, who had become the Foundation's secretary-manager. But the Foundation at this time was short of funds, had only $50,000 available, and while it was trying to borrow or collect the additional amount R. S. Reynolds withdrew the application.

This ended the Foundation's association with the Reynolds enterprises. How foil manufacture led to aluminum processing, bauxite production, and to the operation of more than 40 war plants in various parts of the United States during the second world war is well known. The Reynolds Metals Company was incorporated in 1928 and in 1944, with its affiliates, operated 9 major plants and several smaller establishments in the Louisville area. The Foundation's total profit from the Reynolds connection was the $1,056 accruing from the loan of $30,000 in 1918. How much the community fund would have profited had the same amount been invested in equity shares of the young and expanding enterprise can only be surmised. Speaking as guest of honor at a banquet in 1943, R. S. Reynolds recognized Mr. Ayres in the audience and referred to him as "the man who introduced me to opportunity—somewhat against my protest."

Petroleum Refining

In 1918, a large oil company, then in its expansion period, chose Louisville as the location for a new refinery. Since participation by Louisville capital was requested, the Foundation undertook to interest local private investors and also loaned $50,000 at 7 per cent, accepting as collateral the note of the parent corporation, secured by like amount of outstanding bonds. The contract for the loan, which was to be repaid in three and one-half years, called for no retirement in the first year and a retirement of $15,000 in the second, $15,000 in the third, and $20,000 in the first half of the fourth year. The refinery was constructed and placed in operation.

Under the terms of its loan contract, the Foundation was empowered to receive an annual audit report of the borrowing company. When the first such audit report was due, in 1919, the parent corporation declined to furnish it and retired the Foundation's loan in full. The refinery is a large one today.

Products of Cotton and Cottonseed

During the first World War, an old-established Louisville concern that manufactured cottonseed oil and other cotton derivatives engaged in experimental work on its own account in an endeavor to overcome the shortage of cotton linters needed for the production of explosives. The company also had the motive of providing off-season work for its employees. A capital shortage resulted, and in 1918 the Foundation loaned $50,000 on a 90-day note, secured by 7 per cent guaranteed first preferred stock. The note was to be retired by annual payments of $5,000.

The first two annual payments had been made when the Tennessee cotton interests with which the Louisville enterprise was affiliated went into receivership. In the reorganization of these interests, the Louisville plant was omitted. As a consequence, the enterprise became bankrupt and was taken over by a national chain.

The debt to the Foundation was personally assumed by a Louisville capitalist who had been instrumental in arranging the loan. This capitalist struggled for many years to repay what was purely a debt of honor on his part. The directors of the Foundation as early as 1929 offered to write off the portion of the debt that represented unpaid dividends on the preferred stock; in the subsequent years, the directors granted repeated extensions on the debtor's voluntary note. Payments were made little by little over a long period of time until at the end of 1940—22 years after the date of the original loan—the debt was finally retired. This was an extraordinary instance of the integrity of an individual who was determined that the community fund should not suffer loss.

School Equipment and Other Wood Products

An outstanding instance of persistent support of an undertaking began in 1920 when a school-equipment salesman covering Southern territory convinced the Foundation that school boards throughout the South, which were buying school desks made in the North, would prefer to buy from a Southern concern. The Foundation capitalized this sales idea by providing a building costing $30,157, on a 7 per cent first mortgage. Payment was scheduled to be made at the rate of $1,500 semiannually.

This venture encountered trouble. Sales costs were high, political work was involved, established competition was strong, and the large payments were difficult to meet. The first two notes were retired on time, but from 1921 to 1926 no further payments were made. When the company could not pay an instalment in full, it did not pay at all, and this experience convinced the Foundation that a monthly payment plan was sounder than a plan requiring larger payments at less frequent intervals.

A partner took over the business in 1927, changed it to the manufacture of household refrigerators and other wood products, and made up part of the delinquency. The Foundation invested $7,500 of new money in an addition to the plant, refinanced the old balance of $22,500, and arranged monthly payments. Moderate success resulted, and payments were made regularly until 1929, when the partner became inactive and a hired management was installed. The company again began to decline, and in 1930 the enterprise was liquidated. The Foundation avoided foreclosure by accepting a deed to the property for the unpaid debt of $27,450; but it was left with an empty building on its hands, and for some time was under the necessity of providing a watchman and paying insurance premiums, so that an expense amounting to $3,045 was incurred.

The directors were on the verge of ordering this building pulled down to save expenses, when, in 1932, an elderly craftsman who had previously run a small woodworking plant came to the Foundation with a proposal to start a new enterprise. This man was given the use of part of the vacant building for seven months, rent free, and, with the aid of $2,000 provided by his son and an additional $2,000 borrowed from friends, he proceeded to build up a new manufacturing venture. The Foundation assisted by obtaining lumber, paint, and varnish for the new concern on credit. The proprietor and his son did most of the work at first and soon the little enterprise was producing low-priced kitchen cabinets and selling them successfully.

Some $20,000 worth of idle machinery still remained in the building. Seeing that the experiment was working out, the Foundation arranged for the proprietor and his son to buy this equipment from the receivers for $2,000 in common stock. This new equipment put the venture on its feet. Production and sales began to expand, and within a year the common stock was repurchased, the borrowed $2,000 was repaid, and in 1933 the Foundation agreed to sell the building to the partnership for $15,300. This price was less by $9,301 than the book value of the property and the Foundation wrote off a loss in that amount.

The payments under the purchase contract were only $50 a month for the first two years, then rose to $85 a month. But in 1936, the company's sales having continued to increase, the community agency loaned $11,750 for a further expansion of the plant and refinanced the unpaid balance of the purchase account. As security, all common stock in the company was deposited with the Foundation, which also held the voting rights. Mr. Ayres became secretary of the company. The relationship thus became extremely intimate.

Expansion proceeded, the old building was outgrown, and in 1937 the Foundation invested an additional $5,000 for the purchase of an adjoining lot and the construction of a warehouse. The company in 1940 retired its debt to the Foundation in full. By that time, its capital had increased, out of earnings, to $100,000. Shortly afterward a war contract was obtained, and today this enterprise, of which the son is now in charge, employs 120 workers and is on a stable basis.

Furniture and Other Wood Products

A furniture-making enterprise was founded in 1920 by a prominent retired capitalist who was interested in placing his son in the management of a business. Primarily because they knew the father and relied upon his support, the directors of the Foundation voted an investment of $100,000, in 8 per cent first preferred stock of the new concern. A large plant was built and elaborately equipped.

This venture encountered trouble from the outset. The young manager, who lacked business experience, engaged a succession of hired assistants, each of whom put in new equipment and carried out his own experimental ideas. The investment from the community fund was to have been retired at the rate of $10,000 annually, but no retirements were made. The company was voluntarily liquidated in 1929, the plant passed into the hands of mortgage creditors, and the Foundation took a total loss of $99,945, the largest in its history. The anticipated backing by the father was not forthcoming. This experience convinced the directors of the weakness of the equity position and the superiority of the first-mortgage loan under circumstances of liquidation, as well as of the vital necessity of experienced management.

Commercial Cold-Storage and Ice Manufacture

In 1921, a long-established brewery was forced to discontinue its activity. The company decided to turn its refrigeration plant into a commercial cold-storage concern, since Louisville had only limited facilities of this type at the time.

This venture required a considerable amount of capital. A Chicago investment banking house undertook the financing and floated a $750,000 issue of first mortgage 6 per cent bonds. The company obtained $675,000 from this financing. The Foundation purchased $100,000 (face value) of these bonds for $94,383.

The bonds were to be retired in annual payments over a 10-year period. But the fixed charges resulting from the financing overburdened the venture. The Chicago investment house in 1926 refinanced the bond issue, and the Foundation accepted $83,500 worth of 6½ per cent refinancing bonds in lieu of the unretired $77,883 of the original issue. The enterprise declined and late in 1929, for the only time in its record, the Foundation foreclosed to protect its interest, writing off a loss of $44,466. Various private Louisville investors lost even more heavily.

The plant, which was well equipped and was fundamentally a good business proposition, was taken over by a national concern and is operated successfully as an affiliated enterprise at the present time.

Shoelace Manufacture

Two young Pittsburgh men, experienced jobbers of shoelaces, started shoelace manufacturing in a small way in Providence, Rhode Island.

Their experience indicated that a "hole in the market" existed for shoelaces of a higher quality and that these could be made for sale at the standard price by the use of mechanical improvements. They had heard of the Foundation and, coming to Louisville in 1924, they applied for a capital loan. The directors were impressed by the fact that these partners had saved a considerable amount from their previous earnings, as well as by their evident knowledge of the shoelace trade. The partners, accordingly, were financed for the construction of a new plant costing $62,728, on first mortgage security at 6 per cent interest. No payments were required for the first year.

This venture began to gain ground after a hard struggle. The partners hired competent technical management and devoted themselves largely to building sales, successfully invading a highly competitive market on the principle of quality competition. Annual sales soon reached $250,000, but most of the earnings were either applied to the mortgage debt or plowed back into the purchase of new equipment and the expansion of the plant. After six years, the Foundation aided the plowing-back process by refinancing the debt, which had been lowered to $29,780, and reducing the monthly payments. The next year, the Foundation invested $3,500 in new money for needed equipment, and two years later it granted an extension of all remaining notes. The proprietors continued to work day and night and to make only the minimum amount of withdrawals. Thus aided, the business grew so rapidly that the company retired the Foundation's entire investment in 1939, five years in advance of the due date on the refinancing.

This company has continued to prosper and expand. Its gross sales in 1940 were $300,500, and in 1943 they amounted to $525,000. Its connection with the Foundation has continued, Mr. Ayres being secretary of the company today. The superior strength of a product that sells to a multiplicity of consumers and is differentiated in quality from that of competitors, and the connection between unpretentious hard work and success, were demonstrated to the Foundation by this experience.

Manufacture of Pipe Organs

One of the oldest concerns in Louisville was a partnership of three brothers, making and installing pipe organs. These brothers were descendants of a family that had built pipe organs in England as early as 1820, had moved to Chicago in the late 1860's, and moved again to Louisville after the Chicago fire of 1871. In 1925, when many churches and motion-picture houses were installing new pipe organs, an expansion of the Louisville plant was required. The company applied to the Foundation and received a loan of $60,000, secured by the physical assets and also by the endorsement of the three brothers.

At the insistence of the brothers, it was arranged for the loan to be retired by annual payments of $7,500 for four years, with a balloon note for $30,000, one half the amount of the loan, to be paid in the fifth year.

The company met the first four notes promptly. But when the balloon note fell due in 1930, not only was the depression causing slowness in payments of church debts but also the motion-picture industry was shifting to the use of mechanical sound equipment and abandoning the pipe organ. The Foundation refinanced the $30,000 obligation for five years, $5,000 being payable annually for four years, with a $10,000 balloon note payable at the end of the fifth year.

The first $5,000 payment was received, but extensions were necessary in 1931 and, again, in 1934 and 1935. A problem of succession now arose, complicating the financial problem. Through the retirement of two of the brothers and the death of the son of the third, the business was left in the hands of one partner, an elderly man, and one surviving heir. Nevertheless, in 1939, when the debt had been increased by $4,900 in unpaid interest, the Foundation again refinanced the obligation at a reduced rate of interest, under a contract calling for monthly payments over a 10-year period. The organ market had partly revived and some payments were made under the new arrangement.

The tolerance shown by the Foundation was rewarded when, in 1943, the company developed new vigor by obtaining a war contract for highly specialized airplane parts. This contract in turn attracted an Eastern concern's attention to the special machinery in the organ factory and resulted, in 1944, in the sale of the enterprise. Although the liquidation process is not yet completed, the Foundation will apparently receive the return of its investment in full.

Production of Bakery Goods

Two baking enterprises financed from the community fund have histories that are to some extent interrelated. The first company originally was located 30 miles up the Ohio River from Louisville. In 1926 its manager wanted to move into the city to save production costs. The Foundation provided the company with a site and a new four-story concrete building, costing $60,000, but when the mortgage was filed, the stockholders living in the upriver community learned of the impending move and secured an injunction, tying up the machinery. Thus the company had a vacant building on its hands and no equipment other than one automobile.

Interested in protecting its investment, the Foundation loaned an additional $10,000, located private investors who put up $10,000, and, later, found an individual backer who invested $50,000. The vacant building became excellently equipped, and production began.

Sales were made locally, and for a time the business appeared to be moderately successful. But after a certain period, delinquency in the payments indicated that the company was operating at a loss. Upon studying the situation, the Foundation determined that a new sales policy was necessary and located a sales manager, experienced in another line, who was willing to undertake the task. Under the changed policy, city sales were dropped and bakery products were sold in carload lots to out-of-town wholesalers. This policy not only paid but resulted in a greatly increased production in a few months' time, so that an expansion of plant became necessary. The Foundation in 1934 refinanced the unpaid balance of $19,800 and made an additional investment of $50,000. Thus expanded, the company prospered, becoming consolidated in 1936 with a national baking concern and retiring the Foundation's investment in full.

A young man who had helped to upbuild the revised sales policy that had benefited this concern later brought to the Foundation a proposal for the salvage of another baking company, an old-established but obsolescent enterprise that was on the verge of being taken over and liquidated by its creditors. On the condition that this man be employed as general manager, the Foundation made a loan of $35,000 and also located private investors.

Within a short time, this enterprise, too, was rehabilitated. The plant was streamlined, a modern baking tunnel and other mechanical devices were installed, and within a year's time the business was placed on a profitable basis. An expansion became necessary in 1941, and the Foundation loaned an additional $15,000.

This company's gross sales, which prior to 1940 had averaged about $225,000 a year, in 1943 amounted to $987,000. The Foundation's account was retired in full in 1944, the last 28 monthly notes having been recaptured out of profits.

Manufacture of Enameled Metal Products

The Foundation in 1927 asked the manufacturers of Louisville to list whatever materials or partly processed supplies they were obtaining from places other than Louisville. The purpose was to identify those types of manufacturing that would at once increase industrial employment in the community and accomplish cost savings for its existing industries. From this inquiry it was learned that several manufacturers were sending metal parts elsewhere to be enameled. The Foundation accordingly communicated with several metal-enameling concerns, one of which was eventually invited to establish a plant in Louisville.

The Foundation loaned $49,938 to build a plant for this concern. The plant was completed and production began, but the enterprise did not prosper and the account, retirable semiannually over a 10-year period, after a time became delinquent.

Upon investigation, it developed that friction existed between the Louisville investors and the controlling stockholders in another city. This situation finally came to a head when, after a six-year period of unsatisfactory operation, the Foundation acted as umpire. Under the arrangement that was finally worked out, the absentee interests were bought out by Louisville investors. The plant manager, who was considered capable by the local interests, became president of a new independent concern. The former controlling group paid half of about $26,000 in accrued interest, and the Foundation wrote off the other half and extended the remaining notes. After achieving its independence, the enterprise became profitable and began systematically to retire its debt.

Meanwhile, the Foundation had brought to Louisville, by an investment of $18,000, a small metal-working plant of a complementary type. This plant was located next to the first plant, and, after a close association had developed, the two concerns in 1935 merged voluntarily into a single company. Their combined indebtedness to the Foundation at this time was $62,500. Over a four-year period this debt was reduced to $59,500, and in 1939 the Foundation aided the merged enterprises by investing an additional $10,000 of new money and at the same time refinancing and extending the previous $59,500 obligation.

The combined company gradually expanded. Early in the current war its president invented an ingenious all-metal box for the shipment of gunpowder abroad, and obtained a large military contract for its production. Plant expansion was required, and the Foundation loaned $30,000 for this purpose and also made a further loan of $13,500 for tools and equipment, the latter loan to be retired on a royalty basis at the rate of 10 cents for each metal box delivered. This loan was retired in full at the end of only five months. By the first part of 1944, the enterprise had considerably increased its personnel, had paid its current notes a full year in advance, had expanded further from earnings, and had recaptured its last 12 monthly notes.

Production of Stamped-Metal Devices

The Foundation's outstanding experience in financing an inventor began in 1927 and has continued until the present time. The inventor was a designer of ingenious stamped-metal specialties, who had formed a corporation with two brothers in Chicago. The company decided to move to Louisvile and to make furniture hardware. The corporation had only a modest capital; accordingly, the Foundation loaned $54,062 on a 6 per cent first mortgage, to provide a building. This was a 10-year loan, retirable monthly, and, on the expectation of increased earnings, the monthly payments were graded from $150 at the start to $960 in the tenth year.

From furniture hardware, the production soon expanded to include automobile accessories, advertising premiums, and many metal novelties. In spite of this versatility, money was apparently being lost, and the Foundation's analysis disclosed the fact that some articles were being sold below cost. Better cost-finding methods were installed, and more capital was obtained as the result of the improved position.

The enterprise became embarrassed, however, in 1930, by the closing of a bank in which its funds were deposited. At that time the company had an excellent contract for automobile hood catches, made for a Detroit concern, but the day came when it had no materials and no credit. The Foundation acted promptly and obtained a carload of steel by guaranteeing the credit of the company.

In the following year the various creditors threatened to bring about a liquidation. But this catastrophe was averted by the Foundation, which acted as virtual receiver, carrying the pay roll, arranging extensions and allocating the income. An additional $50,000 was raised in New England by the inventor. The difficulties, however, continued. The company was indebted to a Louisville bank, as well as to the community agency. By funding into a new mortgage the unpaid balance, the accrued interest, and an additional loan of $5,000, the Foundation in 1933 kept the venture alive. This transaction was made conditional upon the extension of the bank loan for one year, and the bank granted the extension.

With the secretary-treasurer of the Foundation acting as secretary of the company, the business was reorganized and carried on until, shortly before the current war, an excellent contract was obtained, covering the manufacture of carpet-sweeper parts for a chain-store concern. The inventor designed the parts and made the necessary dies, but again steel was lacking; a carload was obtained, once more through the Foundation's effort. The carpet-sweeper contract, along with the tolerance of the creditor organization in granting extensions and performing various aids, gave the company a new start.

The account was being satisfactorily retired when, early in 1941, the company obtained a good sized war contract. A building expansion immediately became necessary, and the Foundation provided $40,000 for this purpose. But also, this contract called for a plant modification costing $400,000 and required working capital in the amount of $600,000. A Government agency was willing to supply the necessary funds but required a performance bond, which no bonding company would underwrite because of the debt to the community fund. The Foundation, accordingly, revised its old mortgage, eliminated $12,575 in accrued interest, and by improving the company's statement enabled the bond to be written.

The enterprise increased its employment to 300 workers and began operating on three shifts. From the proceeds of the war contract all delinquencies in the Foundation's account were removed, and in 1944 the full retirement of the investment was not far distant. The plant operation has become highly efficient and the company's postwar prospects are regarded as good.

Macaroni Manufacture

A member of a firm of macaroni manufacturers in Chicago, desiring to establish a business to which his two sons might eventually succeed, sold his partnership and cast about for a new location. The former manager and sales manager of the Chicago company proposed to go to California, but since Louisville had a source of capital it was decided to establish a new plant there. The Foundation was willing to lend $50,000 for building purposes but required that the private capital amount to $100,000; the former partner supplied $65,000 of this sum and his associates put up the rest. The Foundation's loan started the enterprise, and the struggle for a market began.

At first the local market proved unresponsive and in its first full year of operation the concern lost $15,000. But the Foundation supported its commitment by additional loans of $12,500 in 1930 and $10,000 in 1931. These investments brought results, and in its third year, 1932, the company made a profit of $65,000. The head of the firm soon bought out his associates and the father and his two sons had the enterprise to themselves. In 1934 a plant expansion became necessary, and the Foundation loaned an additional $15,000 for this purpose.

Sales had now increased so that the company was selling its macaroni over a considerable territory, including some sales to California. The father and sons worked hard, and this was another case in which nearly all the earnings were plowed back into the business. Although the Foundation had extended its credits on a 10-year basis, all four of its investments were fully retired in 1938.

In 1939 the enterprise required $200,000 for further expansion. This amount was above the Foundation's lending limit, but aid was rendered in obtaining the necessary credit from an insurance company that was making industrial loans. Today this macaroni company, with 500 workers steadily employed, is among the larger enterprises that have received Foundation aid.

One of the sons, in 1938, saw an opportunity to engage in a related line of business without breaking his connection with the parent company. He invested in a small concern that was making chili sauce and other food products to be sold with macaroni, and the Foundation aided this side venture by lending $10,000 for its expansion. Within three years this investment was repaid.

The intimate contact of the Foundation with the macaroni enterprise has continued. This episode further proved the value of the broad market and the less spectacular type of venture as the basis of risk appraisal.

Printing

The printing industry in Louisville owes much to the Foundation, two important printing concerns having been rehabilitated and kept in existence by loans from the community fund. The first was an old-established company that printed pulp magazines for a New York publishing house. This publishing business had grown so that for some time prior to 1935 the plant had been working on a three-shift basis. Its equipment was running down from overwork, and in 1935 the loss of the printing contract was threatened. A Foundation loan of $50,000 enabled the plant to be put in good mechanical condition and also provided necessary working capital. The contract, accordingly, was saved. The loan was fully repaid in three and a half years. Expansion continued, and in 1944 the publishing house bought this plant for a reputed price of one million dollars.

Another long-established enterprise, engaged in job printing, likewise became obsolescent and in 1939 was in the hands of a creditors' committee. The Foundation loaned $100,000, of which $60,000 modernized the plant and $40,000 provided working capital. This investment protected the employment of about 400 members of the printing trades. The payments on this loan have been kept consistently a full year in advance, and at midyear of 1944 an additional year's payments had been recaptured from profits.

Manufacture of Work Garments and Uniforms

A Louisville bank, taking over the assets of a defunct debtor, came into possession of a small garment plant. The bank retained, to adjust the estate, an experienced buyer of garments who was known to certain officers of the Foundation. The adjuster did a successful job and was enabled, partly through Foundation support, to buy the machinery from the bank and engage in garment manufacture.

This venture, launched on very little working capital, expanded from earnings. A vacant building had just been acquired when the Louisville flood of 1937 occurred. A partner who had entered the business then induced the original enterpriser to move to Virginia. A year later the founder returned to Louisville and applied for a Foundation loan. He had used his share of the earnings to buy out his partner and now owned the machinery in Virginia and an interest in the vacant building in Louisville.

The Foundation loaned $30,000 to bring back the machinery and reopen the plant. But the capital position of the enterprise was so weak that bank credit was unavailable. In addition, two developments, both in 1941, created an acute expansion problem. The proprietor had designed a work suit that resulted in a large chain-store order, and almost simultaneously an army contract for uniform pants was obtained.

Accordingly, the Foundation, for the only time in its experience, undertook to finance a business on the security of accounts receivable. All chain-store and Government payments were assigned to the Foundation, which established a drawing account for working purposes. The result was that the company expanded to 250 workers and in 1944 was doing a good business, about 60 per cent of it in war production and 40 per cent in work clothing for the chain-store trade. More than $500,000 had passed through the drawing account by the middle of 1944. The capital loan also was being steadily retired. A local bank in 1944 extended a line of credit to this company.

Packed Poultry Meat

An individual enterpriser with a good idea but little experience started a tiny venture, in a shed, in the canning of poultry meat. The product had merit, and investors became interested to a limited extent, but progress was slow and when application for a capital loan was made to

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the Foundation, the credit was declined. One of the investors was a man whom the Foundation originally had brought to Louisville to be sales manager of a client concern that made food products. Through a business consolidation this sales manager had become displaced, and in 1940, when the poultry-packing enterprise went into the hands of its creditors, he became its receiver, paying all the debts in full. Under his leadership a corporation then was formed, with sufficient capital to start the enterprise anew. Application was made to the Foundation for the second time, and in view of the improved managerial and financial status this application was granted, the Foundation advancing $14,000 for a new building.

Rarely in the Foundation's experience did a small investment prove more fruitful in terms of business expansion. The product took hold, sales mounted, and from three employees the working force soon increased to 50 or more. In 1943 a war contract for the product was obtained and, since a further expansion was required, the Foundation made a second loan of $17,500. The employment proceeded to expand to 125 workers. In 1944 the poultry meat was being packed and sold in carload lots and the Foundation investment was being rapidly retired, both through current payments and the recapture process.

Financing of a New Public Airport

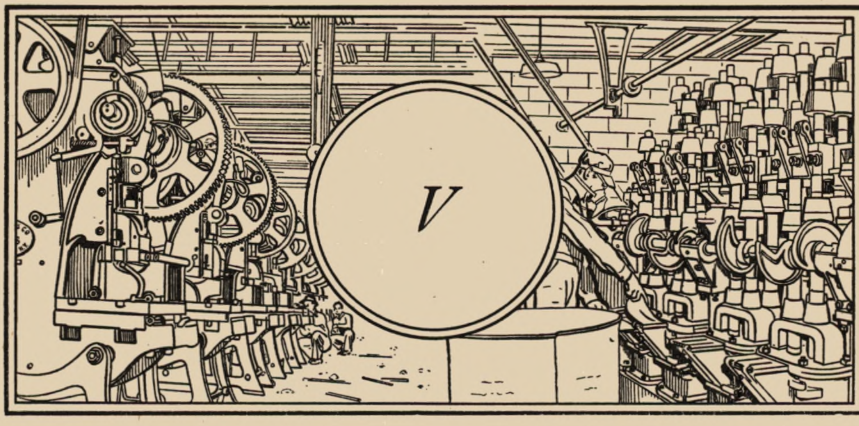
Concluding this selection of case stories is the record of the Foundation's part in creating a new public airport for Louisville. Bowman Field, Louisville's original airport, was developed after the first world war as an addition to the public-park system on land bought from the Alien Property Custodian. As Louisville grew the location of this airport interfered with suburban development, and community planners wanted a change. Early in the war the demands of the army training program exceeded the capacity of Bowman Field, and this condition, coupled with the possibility of attracting aircraft manufacture, created the need of an additional airport in an industrial location. This need concurred with the ultimate intention of the city planners. Land for the new airport was available, but a difficulty was encountered that would have been hard to solve but for the community fund.

The difficulty arose from the fact that the Civil Aeronautics Authority could not take over and develop an airport site that was encumbered, whereas the Louisville and Jefferson County Air Board lacked funds for an outright purchase of the needed land. At first it was proposed that the Air Board should borrow $100,000 at 3 per cent from the Foundation, but this would have involved a lien. The law, however, contained a provision permitting a public agency to exchange one piece of property for another, and this provision provided the solution. The Air Board gave the Foundation a deed in fee simple to 140 acres of land that actually constituted a considerable portion of Bowman Field. The Foundation paid to the Air Board $100,000 as a technical purchase price. The Air Board simultaneously leased back the Bowman Field property from the

Foundation for $3,000 annually, which was the equivalent of 3 per cent interest on a $100,000 loan. The Army, of course, remained in undisturbed possession of Bowman Field, and now the Air Board used the $100,000 to purchase and consolidate the various parcels of land that became the new Standiford Field.

This site was leased to and developed by the Civil Aeronautics Authority, and the Vultee and Curtiss-Wright aircraft plants became established as the result of the new development. Part of the transaction had been a "gentlemen's agreement" by the Air Board to repurchase the Bowman Field property from the Foundation as tax funds became available. The Air Board encountered a tax windfall in 1943 and recovered the deed from the Foundation by repaying the $100,000 in full. This act completed the interim-financing service of the community fund. After the war, Standiford Field will probably become Louisville's principal airport, allowing Bowman Field to be converted for park and recreation purposes.

Many other episodes in the Foundation's variegated financial history could be recited, but the foregoing selection provides a sufficient indication of the types of business problem encountered and the Foundation's unformulated and opportunistic methods of work.



IMPLICATIONS OF THE FOUNDATION'S EXPERIENCE

In exploring the implications of the Foundation's experience, the same difficulty is encountered that is common to all sampling studies: namely, that the sample may or may not be typical of the general situation in a larger field. The Louisville plan, primarily presenting a combination of industrial-bureau activity with the provision of term capital to those manufacturing situations that are not ordinarily eligible for investment, might succeed elsewhere and it might not. Such a plan fundamentally depends upon the particular industrial character of a given area and upon the particular extent to which the demand for manufacturing capital in that area is or is not otherwise fulfilled. Also the many attendant issues involved in developmental policy or in community-found administration depend to a considerable degree upon purely local conditions, including the economic background, the abilities of individuals, and the quality of the community leadership. Knowledge of the conditions that exist in a given area, accordingly, must determine judgment as to the applicability of the plan. It may be generally accepted, however, that countless communities will exert themselves to influence industrial location in the fluid period of readjustment, and also that small businesses, as well as large, must have an adequate access to capital and credit. Some of the methods developed by the Louisville Industrial Foundation in the course of its long and singularly varied experience appear to have suggestive implications in both of these connections.

Developmental Role of Investment Funds

The entire record attests, for Louisville at least, to the effectiveness of supplementing and increasing the flow of capital, as a medium of industrial development. Louisville, largely under the influence of its community fund, grew from a semirural community to a flourishing industrial center. When allowance is made for the advantages that the community intrinsically possessed, an ample margin remains that can only be credited to the known availability of funds for manufacturing purposes. The effects of the community fund were both direct and indirect: direct with respect to the enterprises that were financed, indirect in encouraging private capital to flow into those enterprises and in leading other enterprises to become located in the area. The many enterprises that came to Louisville without being financed did so largely because funds might be at their command in time of need. The general expectation of the Louisville leaders of 1916 that the community would make industrial progress if a supplemental capital source was established, has been abundantly fulfilled.

The Revolving Fund as a Developmental Device

The decision of the original planners to use the community fund as a revolving fund also appears to have been extremely sound. This policy presents a contrast with the policy more generally followed in communities of the South; namely, that of bringing in industries by subsidizing them. Although subsidization has undoubtedly increased industrial employment in underindustrialized areas, its critics have never been satisfied that the offer of subsidies attracted the better types of enterprises or that the principle of subsidy itself was not a violation of the standards of fair competition. As generally applied in the South, subsidization often has led to the development of branch plants whose profits have not been retained within the production area.

In comparison, the revolving-fund policy in Louisville has tended to develop independent enterprises, largely owned locally. While these companies temporarily incurred debt, the debts were generally repaid at interest and the business independence accordingly was preserved. Also, from the point of view of the community, the establishment of a loan fund proved to be an economical method of development, inasmuch as the industries themselves bore the developmental costs and actually increased the community fund.

A slight suggestion of subsidization may be noted in some Foundation transactions. The absence of direct dividends and the investment by the public for indirect returns are of the general nature of subsidy. The capital losses may be considered unintentional subsidies, and the few cases of interest write-off were subsidies in a more direct sense. But the various extensions that were granted, and the free aids that were furnished to the business clients, were much less subsidies than sound business policies of investment support.

Relative Desirability of Types of Enterprise

A recurrent problem of community development has been that of making a selection among the many different types of industry that might be encouraged or brought in. With respect to types of production, the Foundation's answer may be expressed in the one word: "diversified." By fostering a wide variety of manufactures, the institution has helped to provide a versatile opportunity of employment for the resident worker, to prevent the community from being dependent upon the ups and downs of single industries, and to reduce the production costs of other local enterprises.

But there is another aspect to this problem of selection. The Foundation has financed new, brought-in, recently founded, and old-established enterprises and has obtained in many respects its best results in financing those enterprises classified as recently founded. Manufacturing ventures that had been already started by individual venturers and carried through their difficult periods of infancy without outside financing proved more responsive to capital assistance when it came, and gave less trouble to the investor, than any other type. The financial record bearing out this point is given in table 14.

As the table shows, all eight of the undeveloped enterprises survived, whereas in every other category one or more businesses liquidated. The recently founded ventures, furthermore, averaged considerably less in their capital requirements than the other three types; they required less initial capital than any other type and less additional or subsequent investment. Also these young but proved-up ventures needed less refinancing than any other type except the mature establishments. The table also shows that no capital loss was sustained from the undeveloped ventures. As some of the case stories suggest, employment in the recently founded concerns expanded notably when capital was applied.

In contrast, the new enterprises required the largest average amount of capital, needed the largest amount of refinancing, and incurred the largest number of liquidations as well as the highest amount of capital loss. The brought-in enterprises ranked second in total capital requirement, but their record in this respect was somewhat deceptive, as their initial capital requirements were fairly low, whereas their subsequent need of follow-up new money was the greatest, on the average, among the four groups. However, only one capital loss was incurred in this group and liquidations were but two. The mature enterprises ranked third in total capital requirement and required very little subsequent investment; there was no capital loss in this group. But this type of investment was not, in all cases, especially productive of new employment.

The Foundation itself has increasingly favored the already-established but undeveloped enterprise as an object of investment.

The Marginal Financial Area

Beyond the implications for developmental work, the Foundation's methods also have somewhat important implications in the field of finance. In Louisville, as doubtless would be true in many other communities, there arose from time to time a fundamentally worthy type of

TABLE 14

COMPARISON OF COMPLETELY NEW VENTURES, BROUGHT-IN CONCERNS, RECENTLY FOUNDED AND OLD-ESTABLISHED ENTERPRISES IN THE 44 MANUFACTURING FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION [a]

Item for Comparison	*Completely New Enterprises*	*Brought-in Enterprises*	*Recently Founded Enterprises*	*Old-established Enterprises*
Number of enterprises financed . .	13	12	8	11
Number afterward liquidated . .	5	2	0	1
Average gross investment	$85,725	$73,047	$43,450	$69,518
Average total new money	69,163	59,040	37,069	63,618
Average initial new money . .	53,394	41,790	31,163	57,000
Average additional new money	15,769	17,250	5,906	6,618
Ratio of additional to initial new money	29.5%	41.3%	19.0%	1.2%
Average refinancing, amount . .	16,562	13,757	6,381	5,900
Ratio of refinancing to total new money	23.9%	23.3%	17.2%	9.3%
Number of capital losses	3	1	0	0
Average capital loss to each group	11,824	4,609	0	0
Ratio of capital loss to total new money for each group . . .	17.1%	7.8%	0	0

[a] Averages derived from figures in tables 4 to 13.

investment situation that was unable to command financial support from the usually established sources. This fact is indicated by the 44 manufacturing situations, all more or less ineligible for the ordinary types of financial accommodation, that were undertaken by the Foundation and, with only four exceptions, ultimately repaid or are at present repaying the investments.

It is not clear what the companies that were financed would have done without the funds supplied by the Foundation; nor is it clear what is done by companies in other communities that are similarly unable to meet the standard requirements of investment, especially of medium-term credit for capital purposes. It has long been suspected that formulated investment standards have been a factor in the industrial mortality rate. Yet the Foundation's experience indicates that the actual risk presented by the off-standard business situation may be, at times, less than theoretical credit standards might imply. Capital itself, properly applied, can greatly reduce the chances of business mortality.

The Importance of Services to Clients

But the Foundation has exerted itself to protect and improve the business status of its clients and, by so doing, has aided the community and protected its own investments. The community motive in the corporation's investment dealings led the institution to adopt a highly co-operative and constructive creditor-debtor relationship, and this relationship proved to be sound business policy. In this respect, the Foundation appears to have anticipated a modern trend, in response to which certain banks today are rendering technological, managerial, and marketing aids and giving advisory services to their industrial clients. The aids rendered by the Foundation have been of the informal and intimate type characteristic of a purely local and autonomous organization, and these activities undoubtedly have had the effect of salvaging many accounts that otherwise would have lapsed. The small and independent enterprises especially are likely to show a favorable response to services and aids rendered in connection with credits, and the Foundation's experience in this respect strongly indicates that an active policy of investment support may be an important clue to success in the financing of small business.

The Importance of Flexible Financing

In further presenting flexible financing as a desirable and indeed necessary principle, the Foundation makes perhaps its most important contribution. Essentially, its development of flexible financing procedures was the outgrowth of circumstances. The original administrators of the community fund evidently regarded the smaller enterprises as being capable, like the larger units, of meeting fixed-charge obligations consistently and of retiring capital investments in regular instalments of considerable size. But experience proved that the small businesses, even when fundamentally capable of carrying and retiring a considerable debt, could seldom do so without variation in their payments upon account. Markets fluctuated, products changed, and some business experiments met with acceptance while others did not. Apparently, the smaller, the more personal, and the more venturesome the enterprise, the more must the investor expect and be prepared for a variable return.

The Foundation cannot be said to have welcomed the fluctuating position of its accounts or to have adopted flexible collection terms on any basis of choice. Rather, its policies of adaptation were developed under the compulsion of conditions that continually recurred in the small business sector itself. Once recognized as deeply characteristic of this order of enterprise, the fluctuations were easily met. Because semi-annual payments proved too large to be practicable, the Foundation turned to monthly straight-line payments. Because the straight-line fixed charges did not conform to business realities, graded or variable payments were adopted. When these did not run parallel to the income curves of the enterprises, extensions and refinancings were liberally granted. Finally, the repayment of debt was put into a partial relationship with the profit status of each enterprise, year by year, through the recapture device. This constant search of compatability in the financing undeniably saved the lives of some enterprises, whereas a rigid adherence to stated and rigid terms would have resulted in foreclosures and business deaths.

It should be possible to extend flexible financing further than the Foundation has done. Maximum flexibility, of course, would be gained through purchasing common stocks outright and sharing in the profit-and-loss position of the client enterprises. To this proposal, the present leaders of the Foundation object on the ground that if the community fund were invested in small business equities, which are seldom resalable, the power of the fund to revolve would be gone. Yet in its earlier stages the Foundation bought preferred stocks on serial retirement plans, and, similarly, common stock or a partnership may presumably be purchased under a retirement contract.

Terms of investment retirement have varied widely in business finance. For example, companies have paid some portion of their profits into sinking funds, to provide for the retirement of equity holdings at the will or discretion of the investor. Under a plan of this type, each client of the Foundation might have established a fund upon which the investing organization could draw at its own discretion for the reduction of its investment or the attainment of a sufficient liquidity. Such a fund could have been established from profits of the businesses, from fixed charges, or both in any desired proportion. Another plan of this general type is represented in what is known as "founder's shares," in which the principal amount of an equity investment is gradually and regularly retired but the return upon the investment is derived from and depends upon profits. A third plan is that of the flexible interest rate, in which the interest charge is related to the profit status; this plan somewhat resembles the recapture arrangement, except that it applies to current payments.

Plans such as these are mentioned only as illustrations of further developments that are possible in flexible financing. The Foundation not only has called attention to the important principle of flexibility in its bearing upon the financial problem of small business but has made considerable progress along the pathway of its application.

The Question of Equity Participation

The fundamental objection made by leaders of the Foundation to any form of equity participation is that ownership does not protect the investor in the event of liquidation. It is, of course, true that the mortgage holder comes before the equity owner in his claim upon the assets of a defunct concern.

The central consideration in this connection is the attitude toward the prospect of liquidation itself. A policy of complete loss avoidance became ingrained in financial practice as a consequence of the depression and had a considerable effect in curbing industrial experimentation. To concentrate upon the possibility of failure and liquidation is, of course, to lead the investor, almost inevitably, away from all forms of risk participation and to paralyze the spirit of venture in finance. In the case of the Foundation it led to the well-secured credit; yet it seems significant that only eight of the Foundation's 44 client situations, in a 28-year period that included two depressions, resulted in liquidations, voluntary or forced. Nevertheless, the specter of liquidation still is seen in the avoidance of equity investment and the insistence upon first-mortgage security, even though one result is a limitation upon investment returns.

What would have been the Foundation's proportion of total losses to total profits had it purchased one-third equities in its various client enterprises (assuming such equities were for sale) instead of making the same amount of investment in fixed-return loans? Unfortunately, data are lacking for the evaluation of the equities of these concerns during the varying periods involved in this record. Hence an exact comparison study cannot be made. Of the 44 manufacturing concerns, 8 were liquidated, about 10 provided livings for their workers and proprietors, about 18 earned moderate profits over periods of years, and about 8 expanded considerably and became genuinely profitable—in some of the cases, extremely so. The profit balance of the whole portfolio accordingly, was well over on the right side and the Foundation, had it held equities, evidently would have profited considerably more than it would have lost. Equities in the 30 manufacturing situations entered since 1922 would almost certainly have paid greater returns than did the interest. As it was, by adopting a lending position and defining its earnings in terms of the fixed rates of interest, the Foundation indeed placed a floor under its losses but, at the same time, put a ceiling over its possible returns.

The Importance of Sound Appraisal

Obviously the fundamental consideration in either credit or equity investment is soundness in appraisal of the business prospects of an enterprise. The Foundation's appraisals became increasingly sound. Those appraisals have rested upon two primary factors: the business ability and working capacity of the men behind the enterprise and the prospective marketability of the products. In appraising the personal factor, the Foundation generally accords little weight to past histories of business trouble, as long as no dishonesty was involved. A weak capital position of an enterprise is regarded as hopeful if the man be energetic and the sales prospect good. The disappearance of losses in the Foundation's record after 1930 was evidently much more closely related to the improvement in appraisals than to the insistence upon physical security. Probably, on the same appraisal basis, the equity position, which is the true venture position, could have been safely assumed.

The Community as a Capital Source

The culminating implication of the Foundation's financial experience is that a high degree of local autonomy is necessary to an organization that would successfully finance the smaller and less-standardized business ventures. Most situations with whch the institution was concerned were local situations, no two of which were identical in scope and terms. This fact of variation in turn required a neighborhood intimacy of contact and often an extremely original course of action by the Foundation in entering and supporting its accounts.

In Louisville, this intimacy of approach and independence of action are regarded not only as essential but also as implying that small business can be successfully financed only by a purely local organization, having no overhead affiliations, no red tape, and no outside control. So strongly is this believed that some Foundation leaders have expressed the view that an investment agency of national or even regional scope, public or private, would fail in this particular financial field. The reason given is that large institutions ordinarily have rigid rules and standards and do not give their local representatives a sufficiently free hand.

Certainly the Foundation's success in financing and servicing the local and decentralized business concerns of its immediate vicinity has arisen directly from its ability to maintain close personal contacts and to make such immediate and specific decisions as each situation might require. It is argued, by extension, that the community itself is the most appropriate source of capital for the enterprises of local ownership and scope.

A dilemma is presented by this contention. On the one hand, it may be accepted that a high degree of local automony in the administration of the financing agency is essential to success. On the other hand, a purely local financial institution has but limited funds at its command. How to preserve the necessary autonomy while bringing into play the abundant resources of national or regional investment capital accordingly becomes the problem.

One solution contemplates the borrowing of central funds by the Foundation for reinvestment purposes, should additional resources be needed in the readjustment period. The charter of the corporation permits it to borrow up to $250,000.

Other suggestions for safeguarding local autonomy when other than local capital funds are obtained have also been made. One is the proposal that the smaller businesses themselves should combine into credit associations, somewhat similar to those in agriculture, for purposes of joint borrowing. Another is the suggestion that region-wide or area-wide venture foundations should be formed and capitalized to participate with local funds such as that of the Foundation. The general advantages of a two-level system, combining central guidance and resources with local administrative autonomy, have been shown in another connection.[16]

It is conceivable, in theory, that large central suppliers of capital funds might learn to operate through self-governing local branches, or through unaffiliated local agencies. The problem is essentially one of administration. In demonstrating within its locality the necessity for informal contacts and for unconventional and prompt decisions, as part of the financial relationship, the Foundation has emphasized a principle that requires consideration if funds from central and standardized institutional

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[16] E. J. Hopkins, *Mississippi's BAWI Plan: An Experiment in Industrial Subsidization* (Federal Reserve Bank of Atlanta, January 1944).

sources are to be translated into the terms of the decentralized and variegated small business situations.

An adequate supply of capital is a necessity of business life. The retirable term investment, whatever its precise form, represents a primary need of the personal, decentralized, and independent order of business. With the term investment, a willingness on the investor's part to make necessary adaptations in the retirement schedules becomes almost a necessity of life for the fluctuating small enterprise; and a program of business aids, accompanying the investment, is both appropriate in dealing with the personal ventures and necessary, in many cases, as an investment support. In contributing importantly to the development of its own community, the Louisville Industrial Foundation has performed the more general service of illustrating three working principles—flexibility in financial arrangements, constructive participation in the nonfinancial problems of client enterprises, and the individualistic approach that comes with high local autonomy—involved in the successful financing of the smaller business enterprises.

APPENDIX A

Articles of Incorporation of the Louisville Industrial Foundation

I

NAME

The name of this corporation shall be Louisville Industrial Foundation.

II

PRINCIPAL PLACE OF BUSINESS

Its principal place of business shall be in Louisville, Jefferson County, Kentucky.

III

BUSINESS

The nature of its business shall be to advance and develop the City of Louisville and vicinity industrially, and to accomplish this purpose the Foundation shall have full power and authority to subscribe for, own, hold or transfer stocks, bonds or other securities in, any manufacturing corporation now or hereafter established in Louisville or vicinity; to advertise the advantages of said City and vicinity; to empower one or more of its stockholders to act as director or directors, for and on its behalf, in any corporation in which the Foundation may be a stockholder; and to perform and do all other acts which may be deemed necessary to carry into effect the purposes for which the Foundation is organized.

IV

CAPITAL STOCK AND INVESTMENTS

The authorized capital stock of the Foundation shall be Eleven Hundred Thousand Dollars ($1,100,000.00), divided into eleven thousand (11,000) shares of the par value of One Hundred Dollars ($100.00) each.

The stock shall be paid for in ten (10) equal installments: the first installment of 10 per cent to be paid at a date to be fixed by the first Board of Directors, and further installments of 10 per cent each to be paid at intervals of six months until the stock is paid for in full.

Any stockholder may anticipate the payments of his stock, in whole or in part.

On the payment of the first installment ad interim stock certificates shall be issued to the subscribers, and thereafter, as each installment is paid, the amount so paid shall be credited on the said stock certificates. When all the installments have been paid, the regular stock certificate shall be issued to the subscriber.

As it is the purpose of the Foundation to conduct its affairs so as to make its investments as safe as possible, consistent with the purposes of the corporation, the Directors, when subscribing to the shares or bonds or other securities of any corporation, shall, when in their judgment it seems advisable, require any or all of the following: that securities shall be redeemed within a given period; that respresentation shall be allowed on the Board of Directors; the appointment of an expert accountant to examine the books and accounts at regular intervals; that if common stock is taken there shall be no preferred stocks or bonds outstanding; that if preferred stock is taken there shall be no bonds outstanding; and any other safeguard which the Foundation's directors may deem necessary.

The Board of Directors may use such part of the income or the capital of the Foundation as seems to it discreet, in paying its necessary expenses and in other ways in carrying on the business of the Foundation and the purpose for which it is organized.

As the Foundation is organized for the purpose of promoting the industrial development of Louisville and vicinity, the Board of Directors is not to be in any way responsible on account of any loss which the Foundation may suffer by reason of subscription to or purchase of stocks, bonds, securities, or property, real or personal, of corporations in which the said Board of Directors may determine to invest said funds.

A statement of the affairs of the Foundation shall be published semi-annually for the information of the stockholders.

V

SUBSCRIPTION BY INCORPORATORS

For the purpose of incorporation each of the undersigned hereby subscribes to three shares of the capital stock of the Foundation.

VI

TIME OF COMMENCING BUSINESS

The Foundation shall commence business as soon as a copy of these Articles has been recorded in the office of the Secretary of State as provided by law, and shall continue thereafter for a period of fifty (50) years unless sooner legally dissolved; Provided that no subscriptions shall be binding until bona fide subscriptions to the amount of One Million Dollars ($1,000,000.00) have been made.

VII

MANAGEMENT

The affairs of the Foundation shall be conducted by a board of not less than seven nor more than fifteen directors.

At the first meeting of the stockholders fifteen (15) directors shall be elected, and no change shall be made in the number to be elected annually unless the Board of Directors shall, at least two months prior to an annual meeting, fix, by resolution subject to the ratification of the stockholders at the next meeting, a different number and cause notice thereof to be sent to the stockholders.

From the directors chosen there shall be elected by them a president and two vice-presidents.

The directors shall also elect, either from their number or outside of their number, a secretary, a treasurer and a general manager, but may combine any two or all three of these offices in one person.

The Board of Directors shall fix salaries of officers and employees and shall determine what subordinate offices shall be created, and may fill the same themselves directly or through appointment by an executive officer; but all officers and employees shall hold office at the pleasure of the Board.

The Directors shall determine, by By-laws, from what officers and empoyees bonds shall be exacted, and the expense of such bonds shall be borne by the Foundation.

The Directors are to be elected by the stockholders at a meeting held for that purpose after the recording of a copy of these Articles of Incorporation in the office of the Secretary of State as provided by law, and thereafter Directors are to be elected annually at the regular meeting to be held at the office of the Foundation in Louisville on the fourth Monday after January 1 of each year.

It shall be the policy of the Foundation to elect the President of the Louisville Board of Trade as one of the Directors, and to elect at least one-half of the remaining Directors from a list of Foundation stockholders containing three times the number to be chosen, nominated by the Board of Directors of the Louisville Board of Trade immediately prior to the first meeting of the stockholders, and thereafter at their regular meeting in each January: Provided, however, that any Foundation stockholder may exercise his right to vote for any stockholder he chooses, as Director, under the laws of Kentucky.

The vacancies in the Board shall be filled by the Board until the next regular election.

VIII

SAFEGUARDING INVESTMENTS

Investments in the stocks or bonds or other securities of any manufacturing establishment shall be made only with the assent of two-thirds of all the Directors of the Foundation.

The Foundation shall not invest more than 10 per cent of its capital in any one concern, nor shall it subscribe to more than 33 1/3 per cent of the total cash paid-in capitalization of any one concern; and in considering capitalization, patents, franchises, sales rights, good will and similar items shall not be included.

IX

QUALIFYING DIRECTORS

The Directors shall have the power to transfer to one or more Foundation stockholders a sufficient number of shares of stock in any corporation in which the Foundation may be a stockholder to enable such Foundation stockholder or stockholders to be elected a director or directors in such corporation; and such stockholder or stockholders shall hold said stock as trustee for the Foundation.

X

LIMIT OF INDEBTEDNESS

The highest amount of indebtedness or liability which the Foundation may at any time incur shall not be in excess of Two Hundred and Fifty Thousand Dollars ($250,000.00).

XI

PRIVATE PROPERTY OF STOCKHOLDERS EXEMPT

The private property of the stockholders shall be exempt from the corporation's debts.

APPENDIX B

Standard Contract of the Foundation[18]

It is hereby mutually agreed by and between________________, a corporation, party of the first part, and Louisville Industrial Foundation, a corporation, party of the second part, both of Louisville, Kentucky:

WITNESSETH, that for and in consideration of the covenants contained in mortgage of even date between said party of the first part and party of the second part, the party of the first part hereby agrees:

1st. That until said mortgage shall be fully complied with, it will at all times, keep proper books of account and will maintain a standard and modern system of accounting; and that said party of the second part may, so long as the party of the first part shall be indebted to it, make, or cause to be made at the expense of the party of the first part and in such manner and at such times as the party of the second part may require, inspections and audits of any books, records and papers in the custody of the party of the first part, or others, relating to its financial or business conditions, including the right to make copies thereof and extracts therefrom.

2nd. That within one hundred and twenty (120) days after the close of each fiscal year, the party of the first part shall furnish to the party of the second part an audit, certified by a reputable certified public accountant satisfactory to the party of the second part, showing in form and detail, satisfactory to the party of the second part, the financial condition and results of the operations for the preceding twelve (12) months of the party of the first part.

3rd. That so long as the party of the first part shall be indebted to the party of the second part in any amount, it covenants that it will not, without the written consent of the party of the second part, effect or in

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[18] This agreement is accompanied by mortgage contract of usual form, except as to the graded-payment and recapture provisions, and by the standard form of note. The Foundation ordinarily requires separate note covering each monthly payment.

any manner make sale or lease of, or any merger or consolidation which involves all, or substantially all of its assets.

4th. That in the event of a default of any of the terms and conditions of said mortgage, or this agreement, which should in law give cause for action in foreclosure, the party of the second part may, at its option and without liability on its part, participate actively in the management of the Company and at the expense of the party of the first part, make such management changes and additions as are best calculated in the judgment of the party of the second part to conserve the assets and business of the Company and the investment of the party of the second part.

5th. To furnish, at its own expense, evidence satisfactory to the party of the second part of its title in fee simple to the premises covered by mortgage of even date, and further agrees to pay all necessary expenses for the examination of title and closing of the loan, including all recording and notary and attorney's fees.

6th. To elect to membership on its Board of Directors a director nominated by said party of the second part, who shall be satisfactory to said party of the first part.

7th. That said party of the first part shall promptly refund to said party of the second part the taxes paid by it to the state or other taxing authority, as intangible taxes on the unpaid portion of the notes described in said mortgage, as returned by the party of the second part for taxation.

8th. It is mutually agreed and understood that said party of the second part shall not be a party in determining or adjusting relations or disputes between said party of the first part and its employees, or their representatives.