

March 1, 1938

MEMORANDUM TO: THE PRESIDENT

FROM: WILLIAM O. DOUGLAS, CHAIRMAN

Re: Capital Markets

In my memorandum to you of January 29, 1938, I suggested the desirability of setting up a system of industrial banks to service the capital requirements of legitimate small businesses.

There are other important functions which such industrial banks might serve. There are of great importance, in my judgment, to the whole problem of the capital markets and to the welfare of our economy.

1. These industrial banks would be designed to service all business, not just small business. They could not only make loans but, more important, they could buy preferred and even common stocks. In addition, they could underwrite securities of issuers.
2. Though empowered to engage in underwriting, they should not become distributors. Normal investment banking machinery could be employed for that purpose. The industrial banks would be restricted to pure underwriting, in the English sense.
3. These banks would be permanent agencies, not mere emergency ones.
4. The stock of these banks would be subscribed for by the Federal Government (e.g. by the RFC); their debentures would be sold to the public, to Federal Reserve Banks, etc. The government would always retain control of them; those who had invested in them might be given representation on the board.
5. These industrial banks could perform the following important functions:
 - (a) There has been an inadequate supply of capital in the underwriting business. They would furnish an adequate amount of capital necessary for the task which lies ahead.
 - (b) Industrial banks operating in the various regions of the country could work cooperatively with investment bankers in those regions in underwriting offerings of issuers whose principal place of business is in those respective regions or in otherwise servicing issuers.

(c) These industrial banks could displace the Morgan influence in the various regions and supply a new enlightened leadership in the business.

(d) These banks could decentralize financial and industrial control. They could move that control from New York City back home where it belongs.

(e) These banks could do more than anything else to develop the United States regionally. Thus the bank in the middle west, the one in the south, the one on the west coast, etc. would be restricted in their operations to development o their respective regions.

6. Such a program would have enormous public support, outside of New York City. It should be popular with each region as it would point the way towards the development of each section of the country. It should therefore receive great sectional support.