

March 12, 1935

[National Power Policy Committee]

FOR SPEECH FILE

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To the Congress of the United States

I am transmitting to you herewith a report submitted to me by the National Power Policy Committee. I named this Committee last Summer from among the Departments of the Government concerned with power problems to make a series of reports to coordinate government policy on such problems. This report I am submitting to you is the recommendation of the Committee with respect to the treatment of holding companies in the public utility field. It deserves the careful attention of every member of <sup>the</sup> Congress.

The so-called Public Utility Holding Company Bill, (Title I of House Bill 5423 and of Senate Bill 1725), which was drafted under the direction of Congressional leaders, incorporates many of the recommendations of this report.

I have been watching with great interest the fight being waged against the Public Utility Holding Company ~~Bill~~ <sup>legislation</sup> which has been introduced in Congress. I have watched the use of investors' money to make the investor believe that the efforts of government to protect him are designed to defraud him. I have seen much of the propaganda prepared against ~~this~~ <sup>legislation</sup> ~~and~~ <sup>even down to mimeographed sheets of instructions for propaganda to exploit the most far-fetched ~~assumptions~~ <sup>and fallacious facts</sup></sup>. I have seen enough to be as unimpressed by it as I was by the similar effort to stir up the country against the Securities Exchange Bill last Spring. The Securities Exchange Act is now generally accepted as a constructive measure, and I feel confident that any fears now entertained in regard to ~~the~~ proposed utility holding company legislation will prove as groundless as those ~~entertained~~ last spring in ~~regard to~~ <sup>the case of</sup> the Securities Exchange Act.

So much has been said <sup>through chain letters and circulars</sup> by ~~printed propaganda~~ and by word of mouth that misrepresents the intent and purpose of ~~the~~ <sup>a new law</sup> that it is important that

the people of the country understand once and for all the actual facts of the case. ~~The bill does~~ <sup>Such a measure will</sup> not destroy legitimate business or wholesome and productive investment. ~~The bill does~~ <sup>It will</sup> not destroy a penny of actual value of those operating properties which holding companies now control and which holding company securities represent in so far as they have any value. On the contrary, it <sup>well</sup> ~~surrounds~~ <sup>A</sup> the necessary reorganization of the holding company with safeguards which will <sup>in fact</sup> ~~really~~ protect the investor.

~~The bill~~ <sup>We seek to</sup> establish the sound principle that the utility holding company so long as it is permitted to continue should not profit from dealings with subsidiaries and affiliates where there is no semblance of <sup>actual</sup> ~~equal length~~ bargaining. <sup>to get the best value and the best price.</sup> If a management company is equipped to offer a genuinely economic management service to the smaller operating utility companies it ought not to own stock in the companies it manages, and its fees ought to be reasonable. The holding company should not be permitted to establish a sphere of influence from which independent engineering, construction and other private enterprise is excluded by a none too benevolent private paternalism. If a management company is controlled by related operating companies it should be organized on a truly mutual and cooperative basis and should be required to perform its services at <sup>actual</sup> ~~cost~~ demonstrably lower than the services can be obtained in a free and open market.

~~The bill does not~~ <sup>We do not seek to</sup> prevent the legitimate diversification of investment in operating utility companies by legitimate investment companies. But the holding company ~~has~~ <sup>has</sup> in the past confused the function of control and management with that of investment and in consequence has more frequently than not failed in both functions. Possibly some holding companies may be able to divest themselves of the control of their present subsidiaries and become investment trusts. But an investment company ceases to be an investment company when it embarks into business and management. Investment judgment requires the judicial appraisal of other people's management.

The provision incorporated in this Bill <sup>7</sup> ~~for~~ the disappearance at the end of five years of those utility holding companies which cannot justify themselves as necessary for the functioning of the operating utility companies of the country is <sup>an objection</sup> ~~a provision~~ which Congressional leaders I have consulted deem essential to a realistic and far-sighted treatment of the evils of public utility holding companies. For practical reasons <sup>it should</sup> ~~the Bill~~ ~~as now written~~ offers a chance of survival to those holding companies which can prove to the Securities and Exchange Commission that their existence is necessary for the achievement of the public ends which private utility companies are supposed to serve. For <sup>such</sup> ~~these~~ companies, and during <sup>the</sup> ~~an~~ interim period for other companies, the <sup>approval for</sup> ~~Bill provides~~ a comprehensive plan of public regulation and controls <sup>sound</sup>.

But where the utility holding company does not perform a demonstrably useful and necessary function in the operating industry and is used simply as a means of financial control, it is idle to talk of the continuation of holding companies on the assumption that regulation can protect the public against them. Regulation has small chance of ultimate success against the kind of concentrated wealth and economic power which holding companies have shown the ability to acquire in the utility field. No Government effort can be expected to carry out effective, continuous and intricate regulation of the kind of private empires within the nation which the holding company device has proved capable of creating.

Except where it is absolutely necessary to the continued functioning of a geographically integrated operating utility system the utility holding <sup>with its present structure</sup> company must go. If we could remake our financial history in the light of

experience certainly we would have none of this holding company business. <sup>It is a</sup> ~~The holding company~~ device <sup>which</sup> does not belong to our American traditions of law and business. It is only a comparatively late innovation. It dates definitely from the same unfortunate period which marked the beginnings of a host of other laxities in our corporate law which have brought us to our present disgraceful condition of competitive charter-mongering between our states. And it offers too well-demonstrated temptation to and facility for abuse to be tolerated as a recognized business institution. That temptation and that facility are inherent in its very nature. It is a corporate invention which can give a few corporate insiders unwarranted and intolerable powers over other people's money. In its destruction of local control and its substitution of absentee management it has built up in the public utility field what has justly been called a system of private socialism which is inimical to the welfare of a free people.

~~The Bill~~ <sup>What of us 60,000,000 that we should</sup> take the control and the benefits of the essentially local operating utility industry out of a few financial centers and ~~give~~ give back that control and those benefits to the localities which produce the business and create the wealth. <sup>We can properly</sup> ~~The Bill~~ favors economically independent business, which stands on its own feet and diffuses power and responsibility among the many, and frowns upon those holding companies which through interlocking directorates and other devices have given tyrannical power and exclusive opportunity to a favored few. <sup>It is time to wake</sup> ~~The Bill~~ is an effort to reverse that process of the concentration of power which has made most American citizens, once traditionally independent owners of their own businesses, helplessly dependent for their daily bread upon the favor of a very few, who,

by devices such as holding companies, have taken for themselves unwarranted economic power. I am against private socialism of concentrated private power as thoroughly as I am against Governmental socialism. The one is equally as dangerous as the other; and destruction of private socialism is utterly essential to avoid Governmental socialism.

*The White House*  
*March 12, 1935*

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TO THE CONGRESS OF THE UNITED STATES:

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I am transmitting to you herewith a report submitted to me by the National Power Policy Committee. I named this Committee last Summer from among the Departments of the Government concerned with power problems to make a series of reports to coordinate government policy on such problems. This report I am submitting to you is the recommendation of the Committee with respect to the treatment of holding companies in the public utility field. It deserves the careful attention of every member of the Congress.

The so-called Public Utility Holding Company Bill, (Title I of House Bill 5423 and of Senate Bill 1725), which was drafted under the direction of Congressional leaders, incorporates many of the recommendations of this report.

I have been watching with great interest the fight being waged against public utility holding company legislation. I have watched the use of investors' money to make the investor believe that the efforts of government to protect him are designed to defraud him. I have seen much of the propaganda prepared against such legislation -- even down to mimeographed sheets of instructions for propaganda to exploit the most far-fetched and fallacious fears. I have seen enough to be as unimpressed by it as I was by the similar effort to stir up the country against the Securities Exchange Bill last Spring. The Securities Exchange Act is now generally accepted as a constructive measure, and I feel confident that any fears now entertained in regard to proposed utility holding company legislation will prove as groundless as those last Spring in the case of the Securities Exchange Act.

So much has been said through chain letters and circulars and by word of mouth that misrepresents the intent and purpose of a new law that it is important that the people of the country understand once and for all the actual facts of the case. Such a measure will not destroy legitimate business or wholesome and productive investment. It will not destroy a penny of actual value of those operating properties which holding companies now control and which holding company securities represent in so far as they have any value. On the contrary, it will surround the necessary reorganization of the holding company with safeguards which will in fact protect the investor.

We seek to establish the sound principle that the utility holding company so long as it is permitted to continue should not profit from dealings with subsidiaries and affiliates where there is no semblance of actual bargaining to get the best value and the best price. If a management company is equipped to offer a genuinely economic management service to the smaller operating utility companies it ought not to own stock in the companies it manages, and its fees ought to be reasonable. The holding company should not be permitted to establish a sphere of influence from which independent engineering, construction and other private enterprise is excluded by a none too benevolent private paternalism. If a management company is controlled by related operating companies it should be organized on a truly mutual and cooperative basis and should be required to perform its services at actual cost demonstrably lower than the services can be obtained in a free and open market.

We do not seek to prevent the legitimate diversification of investment in operating utility companies by legitimate investment companies. But the holding company in the past has confused the function of control and management with that of investment and in

consequence has more frequently than not failed in both functions. Possibly some holding companies may be able to divest themselves of the control of their present subsidiaries and become investment trusts. But an investment company ceases to be an investment company when it embarks into business and management. Investment judgment requires the judicial appraisal of other people's management.

The disappearance at the end of five years of those utility holding companies which cannot justify themselves as necessary for the functioning of the operating utility companies of the country is an object which Congressional leaders I have consulted deem essential to a realistic and far-sighted treatment of the evils of public utility holding companies. For practical reasons we should offer a chance of survival to those holding companies which can prove to the Securities and Exchange Commission that their existence is necessary for the achievement of the public ends which private utility companies are supposed to serve. For such companies, and during the interim period for other companies, the proposal for a comprehensive plan of public regulation and control is sound.

But where the utility holding company does not perform a demonstrably useful and necessary function in the operating industry and is used simply as a means of financial control, it is idle to talk of the continuation of holding companies on the assumption that regulation can protect the public against them. Regulation has small chance of ultimate success against the kind of concentrated wealth and economic power which holding companies have shown the ability to acquire in the utility field. No Government effort can be expected to carry out effective, continuous and intricate regulation of the kind of private empires within the nation which the holding company device has proved capable of creating.

Except where it is absolutely necessary to the continued functioning of a geographically integrated operating utility system the utility holding company with its present powers must go. If we could remake our financial history in the light of experience certainly we would have none of this holding company business. It is a device which does not belong to our American traditions of law and business. It is only a comparatively late innovation. It dates definitely from the same unfortunate period which marked the beginnings of a host of other laxities in our corporate law which have brought us to our present disgraceful condition of competitive charter-hogging between our states. And it offers too well-demonstrated temptation to and facility for abuse to be tolerated as a recognized business institution. That temptation and that facility are inherent in its very nature. It is a corporate invention which can give a few corporate insiders unwarranted and intolerable powers over other people's money. In its destruction of local control and its substitution of absentee management it has built up in the public utility field what has justly been called a system of private socialism which is inimical to the welfare of a free people.

Most of us agree that we should take the control and the benefits of the essentially local operating utility industry out of a few financial centers and give back that control and those benefits to the localities which produce the business and create the wealth. We can properly favor economically independent business, which stands on its own feet and diffuses power and responsibility among the many, and frowns upon those holding companies which through inter-locking directorates and other devices have given tyrannical power and exclusive opportunity to a favored few. It is time to make an effort to reverse that process of the concentration of power which has made most American citizens, once traditionally independent owners of their own businesses, helplessly dependent for their daily bread upon the favor of a very few, who, by devices such as holding companies, have taken for themselves unwarranted economic power. I am against private socialism of concentrated private power as thoroughly as I am against Governmental socialism. The one is equally as dangerous as the other; and destruction of private socialism is utterly essential to avoid Governmental socialism.

FRANKLIN D. ROOSEVELT

The White House  
March 12, 1935.