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ADDRESS

of

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I wish to speak to you today of some current problems of the utility industry on which we are working in Washington. I desire to bring them to you and to share them with you, for in a sense they are as much yours as they are mine since so much depends on their solution.

These are not problems too difficult for the ingenuity of business and finance. The brains of industrial America have solved more difficult ones. These are not problems involving the transformation of our capitalistic system into a socialistic state with government serving in the role which traditionally private initiative and enterprise have played. Only carriers of false tales can find such philosophy extant in Washington. These are not problems which pertain to abolition of the profit motive. Washington knows that the profit motive, as the thing which makes our system tick, must be zealously guarded. In other words there is realism in the Washington workshop.

What is true of the Washington workshop is true of that part of the workshop which is the Securities and Exchange Commission. Perhaps the most important task which lies ahead of us is the administration of the Public Utility Act of 1935.

We are now administering that Act for the benefit of about a third of the industry which has chosen voluntarily to comply with its terms. We are performing our job, in this limited field of voluntary action, fairly, honestly and (we hope) intelligently, without fear and without favor. We have not attempted to compel compliance with even the simplest provisions of the Act pending a final decision on constitutionality of the Act and on the legality of the action of two-thirds of industry which has refused to register.

In that Act the Congress attempted to provide new standards for the utility industry in its relations with investors, consumers and the public generally. The country had long demanded more conservative practices from the industry. The abuses disclosed by the Federal Trade Commission's investigations were too grave to be ignored.

This legislation had to be forged in the heat which a long-felt demand and an urgent need for change always generates. Emotions on such occasions usually run high and perhaps are always energizers where a modern system supplants an archaic one, where monopolistic activities are throttled, where valuable franchises for individual preferment are impaired. Intense advocacy, intelligence and courage alone can carry the day on such occasions. Every hardheaded liberal knows that. That is why life in the front-line trenches is usually intense and at times lonely. Those who over the years have been trying to put the public utility house in order know that only too well. But that does not mean either that this measure was conceived in hatred or that its administration if and when its provisions are found valid by the courts will be governed by intolerance or vindictiveness.

Our task will be to consolidate the gains which have been made, to make a new and as yet untried program of reconstruction work, and to achieve the results which the people of this country desire. Of course, one who insists that financial wizards not be allowed to construct or maintain holding company structures which are oppressive to business or dangerous to investors will always run the risk of being dubbed a protagonist of strife who would pit Main Street against Wall Street and business against finance.

But Congress intended to preserve the real values in the utility systems (as part of the capitalistic system) for the common good of investors, consumers, and management, and not to destroy them. Preservation means an harmonious relationship between finance and business, between management and stockholders and between industry and government. That is no formula of sweet sentimentality. Nor is it a formula for inaction or drifting. As I have said, the country wants to reap the benefits of a constructive program for the utility industry. It is no achievement to have a Holding Company Act if nothing is to be done to clean up the conditions which made holding companies and the practices of financial wizards in that field disreputable.

The nation calls for action - direct, forceful, and intelligent action in dealing with the utility situation, not by government alone but by the industry. Such action means constructive work of the highest order, with the industry being given freedom and the opportunity to take the initiative but with Government pointing the way and taking the lead if it falters or delays. A fusillade of words will not suffice. We may change the climate of opinion but we can hardly move forward a millimeter if holding companies and Government agree upon abuses or maladjustments but make no effort to do anything about them. Nor can we view with approval attempts to rewrite these new charters of freedom for investors and consumers in order to satisfy the special interests of management. Experience may show the necessity of revision in the light of practical experience. But we need first a genuine wholehearted endeavor to live and operate under these laws of the land and make them work.

All of us, I am sure, conceive that the best government is that which reaches the stated objectives with the least possible interference with business and finance. Then there is greater opportunity for individual growth and development. How much governmental intervention there must be depends upon industry. The aims and objectives of the Public Utility Act of 1935 have been clearly defined by the Congress. If the industry undertakes to conform to these standards, there will be no need or excuse for prodding from Government. If the industry works with the law rather than against it, setting the pace in tune with the national will, as defined by this legislation, Government will need to act only in a residual role.

I know that there are sufficient brains, courage, and integrity in the business to do this. Those who have created the real values in the utility industry can provide anew a leadership under this new program of reconstruction which the nation has demanded. They will find cooperation in those terms in Washington. They will find fairness, intelligence, and genuine assistance in solving their problems. They will also find tolerance and cooperation - tolerance without weakness; cooperation without capitulation. Intolerance will appear only where the terms of this program are evaded by those who are willing to be bound merely by those of its terms with which they agree. Such intolerance is indispensable to democratic government; it and it alone makes possible the attainment of the objectives of Congress.

While a large part of the industry continues to ignore the Act pending litigation testing its constitutionality, we are faithfully abiding by our agreement not to force compliance with it. But during this interval, which has already continued for over two years, much time and many opportunities

for constructive work have been missed. A basic industry which ought by now to have been ready for much of its needed financing has largely neglected to put its own house in order to make that financing possible and practicable. I regret it; I do not resent it. In fairness to the industry and to our national economy, I dislike the choice of litigation as the technique for handling the problems of the Act, since it is one of the most expensive forms of warfare I know. Yet I can understand the motive for it. But I am shocked at the farflung cry of "wolf, wolf" from the mouths of management over the grave dangers of the misnamed "death sentence", for I know the fears which that spectre generates in investors. And I know how unfounded that fear is, because I know that its basic threat is not to investors but to certain types of management essentially concerned with retaining economic power.

But these are matters in retrospect only. Our job is not an autopsy but reconstruction. We live today, not yesterday. The tide of events moves us forward to the constructive work that lies ahead. The once united front against the Act no longer exists. Many realists in the field have taken a full measure of the Act and have concluded that they can and will live and prosper under it. One has braved the rigors of the so-called "death sentence", has found it to be just the opposite--a rebirth--, and has emerged, preserved and with new strength. Others have undertaken programs for the simplification of their capital structures and for geographical integration of scattered properties. These have all been voluntary acts--born not of compulsion or fear but of the desire to live under the law and to reap its benefits. The contacts and work with this band of realists have been one of the most reassuring experiences I have encountered in Washington. That experience satisfies me that the job--by no means easy or simple--can be done; that there can be such a thing as real cooperation between government and industry.

But reassuring as is that experience, there are others more baffling and bewildering. I see operating managers pressing for opportunity to work under the Act, because they know that by complying with it they can perform a service which, quite properly, would be profitable not only to their stockholders but to themselves. Yet I see these men under the whiphand of New York finance, paralyzed into inaction. I see realists chafing under the domination of these bankers who are forestalling them from moving forward to obtain equity money which the companies sorely need. I see in some situations that finance is the master rather than the servant of business, thwarting the will of those who place the vitality of the industry above emotions and collateral self-serving motives. I have spent hour upon hour with leaders of companies who extol the virtues of the misnamed death sentence, yet are prevented by untold intangibles from participating in its health giving benefits.

I do not want to chide or to criticize. But these are grave disappointments. They are also tragic episodes. While the nation awaits restoration of its capital markets, financial leadership slumbers. An industry which its leaders tell me could use millions of dollars a year in capital for the next few years does not quicken to the possibilities which have been and are in store for it. An industry which has the opportunity to make a major contribution towards recovery is stymied by a small group who stand squarely in its path intent on preserving its own intangible interests regardless of the costs. An industry which has a signal opportunity to put its promotional phase behind it and to enter upon an era of conservative but widespread growth neglects the constructive work which can be done immediately. In Washington we can supply, I believe, the action which is needed from government. We have long been prepared. But this is in essence a cooperative undertaking. It is an undertaking which, to be preeminently successful, must proceed under

the motive power furnished by the industry. If we were in a position to compel, compulsion should be reserved for the marginal group. Voluntary action points the way to revitalization of the industry. I know that that can be successful. It took financial ingenuity and initiative to do the original job. What financial ingenuity and initiative at times did fantastically it can do conservatively.

Perplexing to me is the failure of the so-called financial leaders to appreciate the force of public opinion which brought about this law. History clearly shows over and again that the nation never surrenders such gains. It appears too obvious for question that the public will never again tolerate the conditions and practices of this industry and its financiers in the past. Progressive leadership can not fail to recognize the imperative quality of this call for change. It is time for some leadership in the industry to assert itself before the parade of progress passes it by altogether. An ostrich with his head in the sand has no vision.

One of the outstanding men in the utility industry has permitted me to quote him as follows: "In the next ten years consumption will double and at least ten billion of new capital will be needed. The cheapest way to get this new capital, half of which at least must be in stock, will be to simplify existing capital structures. The electric power industry has only one reason for existence and that is to render dependable service as cheaply as possible. To do this the capital invested must have reasonable certainty of return. The corporate form that it takes should be simple and understandable and workable. The management should be as close as possible to the territory served." This man obviously is no ostrich. He is one of the realists about whom I have been speaking to you. He reflects the views of many others, not subject to the whiphand of finance who have been working on these problems with us and whose objectives are the objectives of the Act.



As I have said, there are brains and imagination aplenty. We need only the leadership from the industry. The need for this surpasses the requirements of individual companies; it goes to the very heart of one of our major national problems - the capital markets. But aside from the point of view of our national economy, and thinking only in terms of the self-interest of the industry, the need for immediate action is strong. What is in store for the industry in the long vicissitudes of time no one can predict. And under a capitalistic system no guarantee obviously can be given to it any more than to other basic industries. It is clear however that the greatest opportunities for survival flow to those companies which adopt conservative standards of finance of the character supplied by the Congress under the Act. If and when the Act is sustained, these private systems will become our wards for the purpose of seeing to the application of those standards. At that time and as a result of that Congressional mandate it will be our duty to be solicitous of their welfare. Meanwhile it is indeed anomalous that we cannot obtain their permission to aid them when it is so clear to those foremost in the industry that a reconstruction is so sorely needed.

Business, the professions, and finance all have their elders. These elders supply leadership. Though they are not responsible for all that happens, they can and do give constructive counsel and advice at least in emergencies. That leadership has always been needed. It is needed now in the industry. Yet it is almost completely lacking. That leadership can provide a cohesive quality; imagination and courage; and a singleness of purpose, undiluted by suspicion or temerity. That leadership with a courage and will to do the job can put the private utility house in order. The small world of finance can supply that leadership if it will. If it will not, it is high time for it to step aside and let the realists do the job. Give us that leadership and private utilities will enter a new era of vitality; and the national economy will be well served. Deny us that and the industry, its investors and the nation will pay the cost.