

For Release
on Delivery
of Address.

ADDRESS

YOUR BUSINESS AND YOUR GOVERNMENT

Prepared by

ROBERT H. JACKSON

ASSISTANT ATTORNEY GENERAL OF THE UNITED STATES

At the

City Club of Rochester

Rochester, New York.

January 15, 1938.

I am glad to discuss the relations of business and government before business men of Rochester because the experience of no city better illustrates what I want to talk about. There is no better illustration of the kind of business which this nation ought to foster than the kind of business you have fostered here. And there is no better illustration of the kind of business that is a menace to the United States than the kind of business which you do not encourage in Rochester.

The fairest way to judge a national policy is by the conditions that we know about at home.

Let us see whether the menace to Rochester's best private enterprises comes from Government or from some source in the business world itself. Let us examine your manufacture and your utilities to see what is menacing them. Let us take first the field of industry, and so that we may not be vague, let us select from among the many good examples, the Eastman Kodak Company.

Have you ever stopped to think how much it has meant to Rochester that George Eastman was interested in building an industry instead of in promotion or stock jobbing? Do you realize what it means that the man who controlled that enterprise lived right here in Rochester, know as human beings the men who helped manage his company and shared with his neighbors the desire for better social conditions here. Suppose George Eastman had sold control of this company to a group of speculators who would have put it through the usual financial operation. You would have today a crippled, overcapitalized Kodak Company, managed locally by a factory superintendent, who would be under the control of a national or perhaps even an international financial group located in some bigger city. The management would then have no interest in your community, no close knowledge of local labor conditions or conditions in other local

industries. And if they found it to their labor advantage they would move their plant to some other city. If they found it to their financial advantage, they would milk, or water, the company as fast as possible.

It is the pride of Rochester that it has been better able than most cities to develop its owners and its industries together – both local products – and to keep its industries away from absentee financial interests.

We do not fear because such industry grows large enough to get the benefits of mass production. We do not fear size that justifies itself by efficiency and economy. Men like George Eastman were creators, willing to live and let live.

But the vast financial bureaucracies which try to get financial control of these local industries are not creators. In the main they are parasites. They do not strive for industrial success based on efficiency. They strive for financial bigness, even if they have to base it on wind and water. It is this financial concentration that the American people fear and distrust.

My conclusion, based on observations long before I entered public office, is that the greatest threat to the enterprise and sound business of a city such as you or I live in is the threat of the speculating financiers, who grab these locally developed industries for exploitation. They invest a little of their own money to control a lot of other people's money. They smother local responsibility and managerial talent with absentee landlordism. They have no sense of trusteeship toward investors, or of responsibility toward labor or local management, or other local enterprise. They neither know nor regard the sentiments or neighborly interests of the locality.

I favor any public policy to make it as difficult as possible to concentrate control of American industry in the hands of a few for purposes of financial exploitation.

Let us turn from industry to the utilities. Let us take the Rochester Gas & Electric Company which is rendering essential gas and electric service to a half million people. I can not imagine any government, federal, state or local, that would not want to foster such service, and to see an honest investment in it rewarded by a fair return. No act of Government and no attitude of any responsible person in Government, state or national, threatens the integrity, the solvency, or the independent operation of this company.

But there was a menace to the solvency of this company, the holding company that had got control of the Rochester Gas & Electric Company. Your operating company was obliged to refund ten million dollars of gold notes in 1932, and fortunately you had enough sturdy business men to take advantage of that situation to deprive that holding company of its position to exploit and threaten the solvency of a company that furnished this city with an essential service.

Your bankers made that holding company take the first, but an important step in emancipating Rochester Gas & Electric Co. They required the holding company to deposit its stock in a voting trust, and made it name three-fourths of the voting trustees and two-thirds of its directors from among the citizens of Rochester, not dummies of the holding company but men who must satisfy your sense of local independence.

In other words, the good business men of your city decided to stop allowing the use of a sound local business as a pawn in an unsound big business game.

Not every community in the country has local business men with the foresight and the courage and the money to protect its local industries in this manner.

Three years after Rochester thus acted, the Federal Government tried to give other communities of the United States the kind of protection that Rochester has been strong enough to get for itself. The Public Utilities Holding Company Act of 1935 seeks to accomplish in the

nation just what your bankers started in Rochester, that is, to pry local utilities loose from the grip of parasitic holding companies. To me the so-called “death sentence” for holding companies is really the Emancipation Proclamation for local operating companies.

You and I know that sound operating utility companies have no trouble getting credit, where they do not have unsound holding companies on their backs. Your bankers saved the credit of Rochester Gas and Electric Company by making the holding company keep its hands off from that local company while its bonds are outstanding. The same nationwide assurance would aid the credit of other operating utilities.

It is customary to accuse anyone who holds a public office of shaping his views by only political reasons. So I turn back the pages of personal history to a time four years before the Holding Company Act was passed, and long before the New Deal was born. Speaking then as a local lawyer for utilities, to the Utility Law Section of the American Bar Association, I gave an unheeded warning of the predicament in which utility credit now finds itself.

These are the views stated in 1931 --

“During the era of inflation the utility rate was closely and sometimes severely regulated and in many states operating companies issued securities only by commission permission. Therefore exploiters of the public turned to the holding company. The holding company unquestionably has a legitimate and useful place in utility finance and management. The success of older and sounder companies created the public confidence which was used by those who perverted the holding company into a device to pyramid securities, inflate values and unload on the investing public. Stock control of widely scattered utilities, bought at prices shocking even in a period of financial intoxication, were scrambled together, ‘bonds’ issued against them and the bond topped out with several varieties of stock. Even some older and sounder interests set up such complicated financial structures that they defy analysis and inter-company dealing baffles explanation.

“There is confusion in many minds between the securities of legitimate utility companies and those that are simply inflated and prospective equities concealed in holding companies. We have too many ‘power securities’ which have little to do with power and less with security. Even a returning prosperity will not, I fear, avoid defaults in some of these issues for it is inconceivable that the underlying operating companies will ever be permitted to earn the

extravagant returns necessary to take up the slack and put sound values back of these fantastic financial structures.

“This use of utility securities as a means of exploiting the investing public is likely to arouse resentment of the indiscriminating against the utilities themselves, to discredit the industry and arrest the flow of capital toward these essential services. * * *

“The collapse of the securities inflation is very likely to result in a demand, backed by resentment and disappointment, that state regulation be invoked as a protection to investors. That demand will have support from many who are not ordinarily desirous or extending the functions of government and who are friendly to utilities but who see no other way to prevent abuse of the investor, who is a very essential factor in utility development.” * * *

Now that we have paid our respects to the speculating financiers who want to organize businesses so much bigger than they have the intelligence to direct, let us turn to another problem of New York State industry.

The most enlightened manufacturers and employers in the State of New York, and the labor organizations of the State of New York, and the public officers of the State of New York have, in general, favored a high standard of living for the State. We have led most of the States of the union in social legislation, in workmen’s compensation for accidents and occupational diseases, for high standards of safety, for collective bargaining and unemployment insurance, as well as humanitarian measures for old age and other forms of relief. Old banners are being carried forward in youthful hands. Robert F. Wagner, Jr. has now worked out and proposed a plan for health insurance.

Many of the business and employer interests of the State of New York have generally conceded the desirability of measures of this kind. But they have quite properly pointed to the fact that these things increased the cost of production in this State. And they pointed out the further fact that some other States did not adopt such high standards, and since our State could

not exclude goods from other States our manufacturers were compelled to compete, even in their own local markets, with the goods of lower cost producers.

It was plain, therefore, that if the State of New York is to be comfortable in a high and advancing standard of living, as I am sure we all hope to do, our labor and our manufacturers are entitled to be protected from the unconscionable practices of competitors in other States. One manufacturer testified in Washington that he employed grandmothers at \$8 per week. We do not want that sort of thing in New York, and we do not want to compete with that sort of thing.

The only power which can protect the industry and workmen of the State from such unfair competition is the Federal government.

The Federal Social Security Act represented a philosophy for the whole United States that was the outgrowth of the philosophy of the State of New York. It was attacked as unconstitutional by a small and unenlightened section of business which wanted to hold back social legislation in states like our own by the threat of competition from states that refused to progress.

It became my duty and privilege to argue to the Supreme Court, in both the Unemployment Compensation and in the Old Age Benefit cases, that the power and duty to help progressive states in these matters rested in Federal government. The decisions in these cases constitute a safeguard to our competitive position and to our living and labor standards in New York. The same effect will be found in the Wage and Hour bill, now pending, and the enactment of which I strongly urge, and on behalf of which I made the first appearance before the Congressional Committee. It would safeguard our industry from the effects of practices which the conscience of this State will not permit us to allow.

New York industry needs to be protected from a low wage economy in the United States. There are business men who regard advocacy of a high wage for labor as an attack upon business. I believe in a high wage scale for labor as a matter of good business and long ago advocated it in my city as good business for my city.

Business can prosper only if it has customers. The greatest market in the world is the American workingman and his family, if he has money to buy with. High wages mean a standard of living that calls for many purchases, and many purchases mean prosperous business. Many of the things we make in Western New York can be bought only by persons of good living standards and good income.

American business must organize itself to pay higher wages without increasing the cost of goods. It can reduce the cost per unit only by increasing volume. To do this it can not carry any load of holding company parasites and absentee landlords.

The "cooperation" which our industry needs is protection against a low wage policy in this country, protection against low standard competition from outside of this State and protection of our local industries, utilities, merchants and banks from parasitic, absentee concentration of ownership and management.

We are in a critical period of our industrial and financial history. The answers that government gives today to the problems before it will profoundly affect the kind of life that our children will lead on this continent.

Above all, it is our way of life that most concerns us. We must not as a nation become so immersed in financial juggling and industrial empire building as to forget that men do not live by bread alone.

Each of us is a part of three great systems. We are cogs in the economic system by which we make and distribute goods, cogs in the social system by which we develop men and women, and cogs in the political system by which government keeps ordered relations between the two systems and between the members of each.

Our economic system with its production of goods and wages and profits must serve, and must not master our social system which includes our homes, our schools, the churches and all of the neighborly and cultural and spiritual influences which come from civilization.

Government must not allow great public problems to be settled in terms of economics alone. The economic system must shape itself to the needs of our social system. A balanced national life is as important as a balanced budget. The effect of an industrial policy on men and women at their firesides is just as important as its effect on the profit statements of our corporations.

The first duty of government is preservation of the nation. It is the homes of humble people -- working men and farmers -- which are the cradles where the future of America is being preserved. The very wealthy are not reproducing themselves. Factories and banks do not reproduce themselves. The America we see ahead must carry on from the homes of the modest people and particularly the lower income groups. Government, therefore, first of all, must guard those homes, as a mother guards her young.

American civilization simply can not afford to have these homes demoralized by periodic unemployment. We can not take hope and courage away from such homes just because their bread winners have reached 45 years of age. We can not afford to sweat the mothers, nor to impose a deadly speed-up or unreasonable hours on the fathers and mothers of the America of

1960. We can not afford financial manipulations that make gaudy fortunes for the few, but which burden the laborer and the consumer to make paper fortunes good.

We do not dare to leave our industries, our labor, our farmers or our sound business managers at the mercy of unscrupulous financial holding company manipulators.

The essential political and economic division in this country today is this:

On the one hand is the great mass of warm hearted people -- farmers, workingmen and business men alike -- who want to preserve a decent way of living for themselves and bring about a little better way of life for their children.

On the other hand are the ruthless few -- determined to keep privileges and practices which exploit our social life to satisfy their own over-developed instincts of acquisition.

Between the two it is not difficult for me, or you, to choose.