For the Bill

MR. FLYNN

THE GENTLEMEN who have dominated and milked our great public-utility systems and our small investors are now running about yelling "Fire!" so lustily, because of the pending holding-company bill, that the citizen is apt to get a bit confused amid the din. "Twelve-billion-dollar industry to be destroyed!" "Tearing down the house to be rid of the rats!" "Burning the home to roast the pig!" Thus they cry out. Let us see, therefore, if we can introduce a little order into the discussion.

First, what is this utility-holding-company bill which has started all the shooting? And, before that, what is a holding company? It is a corporation which, directly or through various, devious corporate devices, controls one or more public-utility operating companies. Insull's Middle West Utilities, his Corporation Securities Company, and Insull Utilities Corporation were holding companies. The United Corporation, Electric Bond and Share, Associated Gas, the Cities Service Company are holding companies.

Now what does the Senate bill propose? It provides:

1. That no holding company can own or control or manage a public-utility company, can manufacture or sell power or issue and sell securities in interstate commerce, unless it is registered with the Securities and Exchange Commission.

2. That to secure such registration it must produce full and complete information about its capital, its resources, its officers, its business.

3. That it cannot issue, sell, or buy securities without first filing with the Commission complete data about such issues and obtaining the consent of the Commission.

4. That such holding companies will not be permitted to own the shares of any corporations save those engaged in generation, transmission, and distribution of electrical energy. They cannot own natural-gas companies, pipe-line companies, or utilities outside the United States and cannot own competing gas-and-electric companies in states where this is prohibited. They may own government securities and such others as the commission may permit.

5. The Federal Power Commission is directed to make a study of all holding-company capital structures and after January 1, 1938, may force holding companies to simplify those complicated structures. Where such action would result in loss to the companies or investors this order may be deferred unt l as late as January 1, 1940. But by January 1, 1940, all holding companies must be dissolved.

However, the Federal Trade Commission may then permit such holding companies as are necessary to the integration of utility systems in geographic areas to continue to function, subject to regulation by the Federal Power Commission and the Securities and Exchange Commission, under the other terms of the act.

These are the chief provisions of this bill. There are others, prohibiting intercompany sales of assets and securities, loans, proxies, etc., requiring reports, and providing for administration and penalties. But there is not one word giving the government any power to intervene in the internal operation of the company.

II

AGAINST THIS exceedingly mild measure a great hue and cry is raised by the holding-company promoters. They see menaced one of the great rackets of the last twenty years. But it is not for this reason that they fight it. They fight it, as you may guess, because it is going to hurt that poor, knocked-about, utterly forgotten man — the little investor. There is something beautiful about the tender solicitude of these holding-company magnates for the losses which the cruel government proposes to inflict upon the widows and orphans and the helpless little shavers who own all these utility stocks. One wonders why these gentlemen were not at least as solicitous for these small investors when they were selling them holding-company securities back in the good old days of the 'twenties. Who was weeping for the little man back in 1929, when he was being sold American Gas and Electric shares for 225 — shares for which he can now get the generous price of 18⅞ each; or when he was

being sold Associated Gas and Electric shares at 46 — shares which can now be bought for 39 cents each?

But, we are asked, why punish a whole industry for the sins of a few offenders? But, alas! in 1929 about forty per cent of the power industry was concentrated in the hands of three large groups — Insull's, United Corporation, and Electric Bond and Share. How many hundreds of millions of dollars were drawn from the pockets of the little investors by these three companies, in those merry days? And where are those dollars now? Remember, the tears are flowing from the eyes of men who sold Insull shares as high as 79, and these shares are now worth nothing whatever. They sold at 75 United Corporation shares which are now worth 1½ and at 189 Electric Bond and Share stock which is now worth 3⅝ a share. The market was overrun with holding-company shares of all sorts. United Founders, which dominated several utility groups, was selling at 76½. It is now priced at a dollar. The public was "permitted" to buy nearly four billion dollars' worth of investment-trust shares by these gentlemen who are now sending up their lamentations for the "little fellow." May we not assume, therefore, that these tears are moving-picture tears and made of glycerine?

This fear for the safety of the little man's investment is based on the assumption that the proposed bill will destroy all utility holding companies. I am very sorry to say that the bill will do no such thing. Well before our famous crash, I ventured to suggest that the holding company would turn out to be the most insidious and certain corrosive agent in the capitalist system. The fate which overtook all these great holding companies, the wreckage of utilities, banks, railroads, industrial corporations thus enmeshed would seem now to give some authenticity to that prophecy. I do not ask the reader to accept merely my dictum. Let me summon two witnesses who can be suspected of no partisanship against the system.

Over twenty years ago, Edgar H. Farrar, then President of the American Bar Association, one of the great corporation lawyers of the country, attorney for the Illinois Central Railroad, told the Bar Association that the time would come when the American people would rue the day when they permitted one corporation to own stock in another one. I think that day is at hand.

Mr. W. L. Ransom is the attorney for the Consolidated Gas Company of New York and one of the leading legal champions of utility companies in the East. In 1925 he wrote a confidential letter to the vice president of his own company, who was about to make a speech in support of holding companies. That letter was unearthed in a recent investigation. It reads:

> The time is not far distant when unregulated holding companies will be recognized as the *chief menace to the public utility industry in America.* They may destroy the present confidence of the investing public in public utilities as safe investments — confidence based on the assumption that state regulation now exists.

Then Mr. Ransom added: "I don't urge you to go that far or say that much."

For my part, therefore, whether we consider the interest of the investor or the interest of the economic society, I think the holding company should be pulled by the roots out of our industrial and financial system. Unfortunately, the bill does not do this.

A letter of Mr. Roosevelt, written in 1926, speaking of the inefficiency of "little companies," is brought forward now. No one is defending "little companies." Is there no sane middle ground between the inefficient company in Warm Springs and a sprawling and predatory giant like Insull?

The bill directs the Federal Power Commission to study the capital structure of holding companies. After January 1, 1938, all holding companies will be forced to dispose of those holdings which are not essential to the sound operation of their system. The clear intention here is to bring about a rational simplicity in corporate structure, in order to eliminate the racketeering possibilities of the holding company. Thereafter, the Commission may permit those holding companies which are deemed essential to the unification of geographically or economically integrated systems to continue to function, under regulation by the Commission.

III

IT IS NOT true to say that the principle in all holding companies is the same. A fair case, on the ground of organizational expediency, can be made for a simple holding-com-

pany structure — a single holding company owning outright the shares of a number of operating companies. Standard Oil of New Jersey is an instance in point. The subsidiaries in that case are nothing more than incorporated departments — incorporated for purely administrative convenience. But compare this with one of our great utility tangles. Out in Oregon you find a little company called the Yawhill Electric Company. It belongs to the Portland General Electric Corporation. But the Portland company belongs to the Pacific Northwest Public Service Company. Here is the parent organization, apparently. It controls the public utilities in Portland, the gas company in Seattle, street-railway companies and other utility companies in various towns.

But this is not the end of the maze. The Portland public-utilities company belongs to the Central Public Service Corporation, which owns other utility systems in Delaware, Maryland, and Virginia. And that in turn belongs to the Central Public Utility Corporation, which owns various other holding companies with utilities and other sorts of enterprises from Maine to Oregon.

But this is still not the end! The Central Public Utility Corporation is held by a superholding company called the Central Public Service Company. Why the little Yawhill Electric Company in Oregon, the Tri-City Gas Company in Alabama, the Bridgewater Electric Company in Maine, and the Lower St. Lawrence Power Company in the Province of Quebec, plus a maze of companies (including the Compagnie D'éclairage Électrique in Haiti!) in a dozen or more states, should all be huddled in this same holding-company nest no one can explain. And the interests which support these weird structures are powerful. Nothing short of action by the federal government and plenary power in the agencies entrusted with the job can clean up such situations.

The pretence that this is an injustice to investors because it will cause a dumping of securities upon a demoralized market is preposterous. That is based on the contention that a large holding company cannot be liquidated without paying off its bonds; that to do this its assets would have to be sold; that to sell these assets in the demoralized state of the market would mean a sacrifice which would involve complete loss to all stockholders as well. The bill makes it perfectly plain that no holding company will be called on to sell any of its securities until after January 1, 1938, and that the time may be extended by the Commission until 1940. Are we to assume that the market is to remain demoralized until 1940? If that is true, the holding-company sponsors need not trouble about what will happen to them. The inexorable laws of economics will have ground them up long before 1940, if the depression continues that long.

The fight, of course, is to preserve the holding-company mechanism, out of which the promoters have made such rich hauls in the past.

The holding companies have made millions for promoters by unloading properties on their companies at shamefully written-up values. The Morgans formed the United Corporation. Into it they dumped their accumulated utility holdings. The public supplied the money. The bankers took perpetual option warrants for stock in the United. They paid a dollar a share for these options. Soon the options were selling for $48 each. In 1929 the Morgan firm could have sold its share of these options at a profit of over sixty million dollars.

The Federal Trade Commission studied ninety-one companies. It found the assets written up thirty-four per cent.

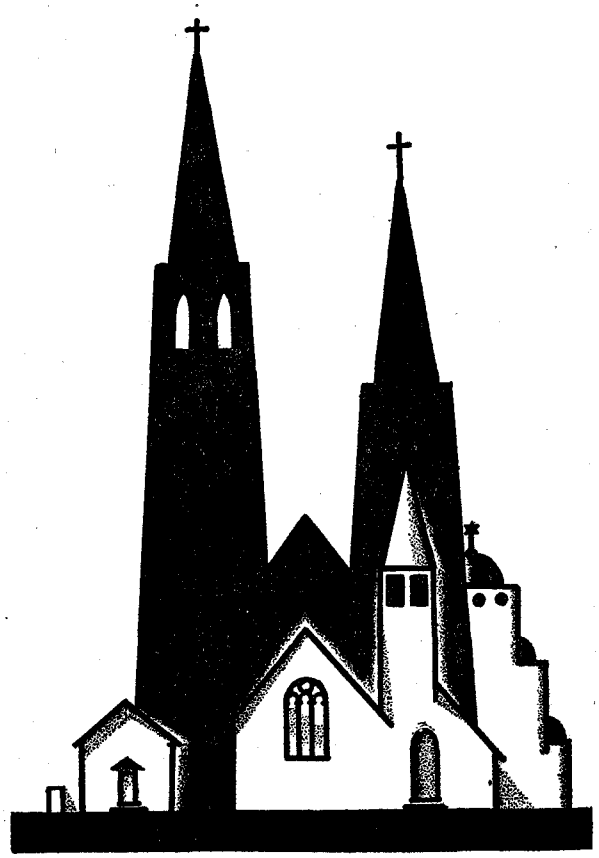
Judge Robert E. Healy, of the Federal Trade Commission, recently declared that the Florida Power and Light Company had written its assets up one hundred twenty-six per cent, or $35,800,000 above its book value of $28,200,000. The Miami customer pays $4.18 per K.W.H. The Hartford customer — undominated by a holding company — pays $2.20.

Electric Bond and Share has a company in Knoxville. Its capital stock has a stated value of $5,000,000. That company wrote up its capital assets, at one stroke and after the depression, $4,388,157, or nearly the whole value of the capital stock! The holding company collected, in the four depression years, over $846,000 in dividends on that write-up.

These are some of the reasons why the holding-company promoters want to save their machine. These are some of the reasons why they must be disarmed.

SHOULD CATHOLIC PRIESTS MARRY?

BY MARY O'NEILL



THE QUESTION, asked in whispers within the Roman Catholic Church at intervals, whether the old practice of celibacy of the clergy should be continued in modern times, is a vital one to me. I have a son who has talked of studying for the priesthood. Naturally, I cannot help having an opinion about the wisdom of the Church's discipline of its ministers.

At the start, I must say that my opinion in this regard in no way affects my standing as a Catholic. In disagreeing with the vast majority of Roman Catholics the world over, I am merely exercising the right granted to all of thinking independently on matters not officially set into the body of Church doctrine. If the Pope himself should happen to see my little protest he would probably deplore what he would consider false reasoning on my part but he would not attempt to take from me the right to my own view.

For years I have been associated closely with many Catholics who have given their lives to the Church, within and without religious orders and in various parts of the world. Consequently, I know that, with marvelously few exceptions, Catholic priests keep their vow of chastity — popular notions to the contrary notwithstanding. In ecclesiastical thought, breaking this vow is the *ne plus ultra* of degradation, the paramount act of defiance of God speaking through His Church, the heinous sin which damns. Not until a priest had lost all faith, all fear of God's wrath, would he dare yield to sex impulses in taking even the first steps toward violation of his vow.

To be sure, celibacy of the clergy is a matter of Church discipline, not a matter of doctrine. The existing policy *could* be changed, although it is not likely to be in the lifetime of any reader of this article. But that clerical celibacy is disciplinary rather than doctrinal does not minimize the seriousness with which the Church's ministers regard their obligation. Sex relations outside of "the holy state of matrimony" are always mortally sinful to a sincere Catholic: when a priest is forbidden marriage he is forbidden any sexual gratification.

AN ERROR IN EUGENICS

AT FIRST IT may seem a heresy to many Catholics when I maintain that enforced celibacy of the most gifted and promising youths in the Church is unwise from the viewpoint of eugenics. Of course, this is merely an opinion. Sociologists have no fixed standards as to what human traits are socially most desirable. Some thinkers may not have departed far from the ideals of Lycurgus, in which a race physi-