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INDUSTRIAL CREDIT SURVEY  
1919-1939

BY

Dr. KURT GRUNWALD



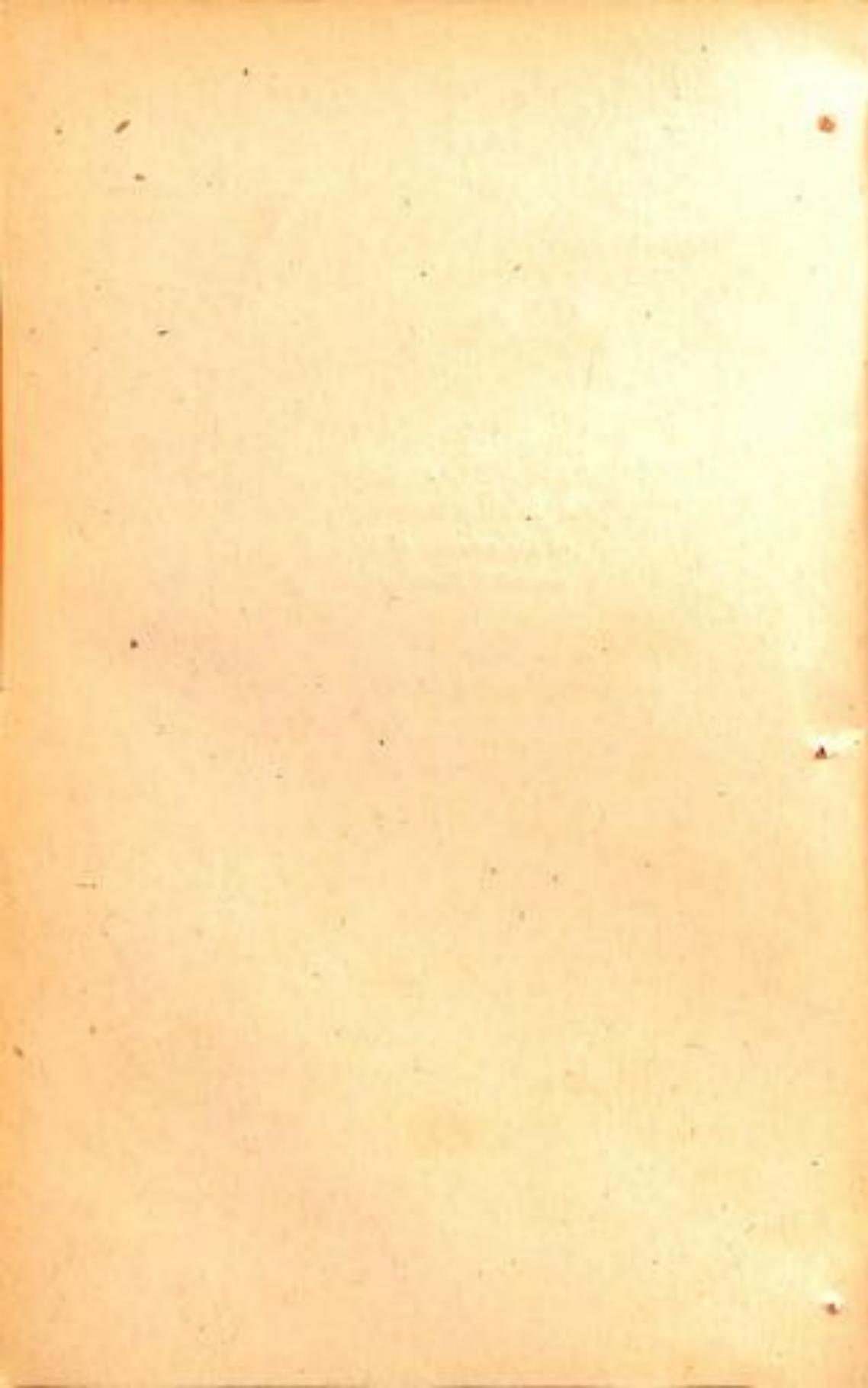
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*"Dedicated to my father  
DR. MAX GRUNWALD,  
on the occasion of his  
seventieth Birthday".*

*Jerusalem, 10th October 1941.*



# INDUSTRIAL CREDIT SURVEY 1919-1939

BY

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## PART I

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### I.—The Background

Among the many problems of credit and banking which had to be faced since the Great War and the fundamental changes which the banking system has since experienced, that of Industrial Credit takes a conspicuous place. As the following pages will show there is hardly a country, whether industrialized or not, which did not take—or at least plan—some measures for the supply of credit or finance to industry. Their impressive number, no doubt, accounts for the failure of many economists and bankers to see the wood for the trees, viz. a new banking structure gradually emerging from a multitude of, often haphazard, relief measures.

All these measures are still experiments, and significant for a groping towards a satisfactory solution of what would appear, recent problems. A. A. Berle quite rightly pointed out that while the short-term credit system has been evolving continuously and steadily, the long-term credit system has had no comparable development since its appearance at and after the Napoleonic wars, when the House of Rothschild started selling bonds. It is only since the publication in 1931 of the Report by the Committee on Finance and Industry (1929) that the financial world has become conscious of the so-called "Macmillan gap" \* in the banking structure, namely the difficulties of smaller industrial enterprises in procuring the credit necessary for their operations and expansion.

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\* Americans call it the "No man's land" of private capital, or the "Twilight zone," where neither commercial nor investment banks operate.

Though, to a certain degree, existing also before the World-War, the problem of supplying industry with credit, has been accentuated by the political, economic and social developments in post-war days, particularly in the decade since about 1926, in which the governments in almost every country of not exclusively agricultural character have grappled with the problem. A large number of schemes have been elaborated for providing finance to industry, and in some countries special institutions have been created for this purpose.

Although the problem is universally in evidence, it is by no means identical in all countries. The terms "Industrial Bank" and "Industrial Credit" in use now almost everywhere, are employed to describe various types of organizations and credit needs. These differences are mainly conditioned by the stage which industrial and capitalistic development has been reached in the respective countries. Furthermore a great number of factors within each country add to the complex nature of the problem.

The need for special agencies supplying credit exclusively to industry has gradually been realised in three different quarters; industry, the banks and the State.

The lack of adequate capital for industry was urgently felt at first in those countries which had been war theatre, or belonged to the defeated powers, where the rebuilding of industry was handicapped by the disappearance to a great extent of the capitalist classes. It became acute, too, in such countries, as the Baltic states, which by the new political order were separated from their previous financial centre. Almost completely lacking accumulated capital of their own, they experienced the utmost difficulties in providing the necessary capital for their, mostly recent, industries which had no access to the still distrustful international capital market.

A similar process took place in those countries where in the years of post-war inflation industry had lost the main part of its liquid resources, and, in addition, the investing middle classes were practically wiped out.

Again, capital and credit became scarce in the days of the Great Depression when it was most needed by industry.

The banks in many of these countries had been closely connected with industry for generations. They had used the money of their

depositors for investments in and long-term credits to industry. But when in the Great Depression credits became frozen and stocks could not be disposed of without endangering the position of the industrial client, or devaluating the assets, special institutions for saving the banks had to be created to take over such frozen assets from the banks for gradual liquidation.

In these countries, as well as in such other countries where the careful operation of the banks had prevented the freezing of their assets, the lack of finance, particularly for smaller industries, became strongly felt, all the more so as capital accumulation in all countries had slowed down as a result of the structural changes in the world economy in general, and of the Great Depression in particular.

In this situation the State took the initiative. Gone was the Golden Age of "Laissez faire, laissez aller," when the State could leave all credit problems to the initiative of the banker. After some decades of a transitory and more or less benevolent "Wirtschaftspolitik" the Iron Age of a "Planned Economy" had thrust enormous responsibilities on the State and its agents, the National Banks. In the countries of new industrial colonization, such as the secession States of the Austrian-Hungarian, the Russian and the Turkish Empire, where industrialization followed the gaining of political independence in hitherto agrarian countries and provinces, the latter had to provide the capital.

Thus, in order to aid the industrialization of these countries, instruments had to be created, varying according to the degree of Etatism prevailing in each country, from holding, or promoting, to mere credit institutions.

That in the days of the Great Depression the State came to the aid of industry was only right and proper. A system of social taxation in many countries aimed at a more equal distribution of wealth, and in a great many cases eliminated the speculative investor in industrial stocks. Moreover, the fiscal and gold policies adopted had frequently prejudiced the position of industry, and finally the divorce by legislation of short-term and long-term credit operations in many countries after 1930 made it imperative to create suitable credit sources for industry. Thus the assistance rendered by the State to industry, as an emergency measure to overcome the depression, laid the foundation for an entirely new banking system in most countries.

This new banking system is probably the clearest sign of the economic and political changes which have taken place in recent years, a fact which is also stressed in the VIth Annual Report, 1936, of the Bank for International Settlement, where these changes are summed up in the following words: "It is in only relatively few countries that the existing banking organisation was so strongly established and maintained such a degree of liquidity that it could pass, if not unscathed at least unassisted, through the crisis. Experience has shown that nowhere have the authorities been able to abstain from intervention, if faced with serious difficulties in domestic banking. When a breakdown threatened, measures of immediate relief had often to be improvised and in particular State aid was given to supplement normal credit facilities. But the necessity of attacking the evil at its roots provided the urge for adoption of reforms designed to strengthen the permanent banking machinery and prevent as far as possible the repetition of errors which recent events revealed."

"It would, however, be taking too narrow a view of the recent banking legislation to regard it simply as the product of an emergency situation. In many respects this legislation is the outcome of experience over a number of years, often connected with deep-rooted changes in methods of financing domestic and foreign business; or it reflects currents of ideas which have grown gradually stronger."

The specific place and importance of industrial credit in this new banking system is recognized by P. W. Martin in the "International Labour Review" ("The Present Status of Economic Planning") 1936. "Financial aid to industry, sometimes with the object of giving necessary encouragement and support, sometimes with the desire to influence its line of development, has been a marked feature during recent years. They are all, in their various ways, attempts on part of the State to encourage and support business enterprise. Government guarantee of the interest on a loan is yet another form of State aid. In other countries the State has a controlling interest in the large banks, which in turn have a preponderant influence over most of the important undertakings...

"State aid to industry may be looked at from three main aspects. In certain of its manifestations — particularly on the technical side — it is essentially a development of national services. From another point of view it is principally a reaction to the stress of acute industrial depression, to be discontinued when the emergency is past. From

yet another angle it may be seen as the first step towards Government regulation. To such extent as industry becomes dependent upon the State for financial assistance, the system of private enterprise is already in the process of replacement."

It is precisely for this reason that bankers in the U.S.A. now oppose any expansion of the emergency measures taken during the years of the Great Depression. They are not yet reconciled to the idea that "Capitalism in 1939 is emphatically not a system of *laissez faire*," but see in the increasing state intervention in the field of credit the coming socialization of banking, with a subsequent Government control of industry. These capitalists forget, however, that they are largely responsible for this state of affairs because of their preference in recent years for investing their funds in Government securities rather than in industry and that Government was thereby enabled and compelled to take the place of the capitalist in the financing of industry.

Moreover, owing to the state of a "matured economy," according to Professor A. H. Hansen's evidence before the Temporary National Economic Committee, Washington, 1939, large industrial corporations can now finance all their potential capital requirements from their own internal resources, such as depreciation funds, and do not have to take recourse to the capital market. This market, however, is virtually closed to the smaller business.

While previously wealthy people sponsored new enterprises, it is difficult to-day to find such support, particularly, as the capital gain tax in U.S.A., for instance, makes speculative risks not worth while. A new enterprise could yield, say 15 per cent. But, as the prospective sponsors would probably be in the surtax class, the net return to them would be only 3 per cent, which they can realize from tax free municipal bonds.

• But there is also another important source for capital virtually untapped to-day; the small saver. The essential problem here is that of harmonizing the natural reluctance of the small investor to take risks which from the standpoint of his own interests appear excessive with the necessity of making available an increased share of the community's savings for enterprises with a degree of risk attached which is higher than the average of the past. Is it possible to devise any machinery which will surmount this difficulty, which will guarantee the small investor the security which he naturally and properly desires,

and at the same time make available adequate supplies of capital in new and relatively untried fields of production ?" (A. G. B. Fisher, "The Clash of Progress and Security," 1935).

Prof. Hansen's views on the existence of a "matured economy" and on the self-sufficiency of the large-scale industry, and the subsequent sterility of savings and stagnation in economic development, have recently been contested by Prof. Harold G. Moulton and his collaborators ("Capital Expansion, Employment and Economic Stability," Washington, 1940) who not only reject this thesis but deny also that there is any need for further short or intermediate credit facilities for medium and small scale businesses, additional to what is already available for them, that commercial banks have been unduly restrictive in their credit policies, or that there has been any serious failure on the part of the machinery of investment banking.

Similar statements can be found in the evidence of a number of bankers and of the chairman of the Reconstruction Finance Corporation before the U.S. Senate Committee on Banking and Currency, 1939, while the chairman of the board of Governors of the Federal Reserve System before this same Committee emphatically confirmed the need for special credit facilities to smaller enterprises. This is where the discussion stands.

Neither can a final judgment be formed on the actual or proposed measures to meet the financial needs of the variegated industrial communities. It is open to discussion, for instance, whether a "National Investment Board," as proposed by the advocates of economic planning in England (*cf.* Mayhew, *Planned Investment*, Fabian Society, 1939) would meet the need of the small manufacturers for intermediate and long-term loans, or whether the scheme of A. A. Berle for a Capital Credit Bank (memorandum submitted to the Temporary National Economic Committee, Washington, 23.5.1939) would be preferable, or to what an extent government may co-operate with instead of replacing banking.

The "Macmillan Report" of 1931, already quoted before, suggested "that it would be worth while for detailed enquiries to be made into methods by which other countries (than Great Britain) attempt to solve this particular problem, *viz.* of long-term credit to industrial undertakings, which owing to their small size have no access to the capital market."

It is for this reason, that in the present survey — for the first time, to our knowledge — these methods have been recorded and the measures applied in various countries, during the past two decades, usually by official or semi-official agencies, particularly for the assistance by credit of the smaller manufacturing enterprises. This survey may be a document of a wider than a purely financial-historical interest.\*

## II.—Industrial Credit and Industrial Banks.

The terms: Industrial Credit and Industrial Banks are frequently used in a quite different sense. Hence it seems necessary at this juncture to make clear what is to be understood under these terms.

We often find the word "Industry" applied to banks, which merely transact the regular business of a deposit bank; industrial finance corporations referred to as industrial banks; "*Industrial Credit*" has become in some countries identified with the finance of hire-purchase business, and "*Industrial loans*" in U.S.A. represent personal, small loans, as granted by the Morris Plan banks and similar institutions. It can frequently be observed that in the heated newspaper discussion on the necessity or danger of industrial banks, people are just talking over each other's head, simply because each one has a different conception of what an Industrial Bank is or ought to be. The function of a bank, it is maintained in some quarters, is to accept deposits in current account, which should not be used for financing industry, a business which should be left to credit or finance corporations.

What, then, distinguishes industrial credit from other types of credit, and wherein lies its specific function?

Attempts have been made, from the bankers point of view, to divide industrial credit into short-term and long-term needs, whereby short-term credit is "a loan of money capital for the purpose of temporarily increasing the circulating capital of an enterprise," and therefore should be obtained on the money market, i.e. through the banks whereas the long-term credit "ought to augment the investment capital," and,

\* The material presented here which was collected over a period of eight years and which covers fifty countries in all parts of the world, was obtained from many different sources, ranging from a note in a newspaper to a detailed report on an institution. It therefore differs widely for each country and institution in the quality and quantity of the information the collection of which was practically brought to an end by the outbreak of the present war.

therefore, should be sought on the capital market. In the former case the credit is to be repaid out of the gross-income, in the latter case out of the profits.

This definition practically coincides with the one offered by the producers who distinguish between credits required to keep an enterprise running, i.e. the process of production and distribution, and credits needed for the expansion of existing and the establishment of new enterprises. Such a strict division is, however, possible only in theory, both as regards the credit, and the source of repayment; in practice the boundaries between these two forms of credit are frequently overlapping. The principle that a bank credit by its proper use should bear in itself the possibility of its repayment, though correct to a certain degree, applies to the individual, isolated transaction, and does not do justice to the actual business life in its complication and variety.

Three kinds of credits were until recently made use of in industry, two of which were regarded as short-term credits. The most frequent one was the discount of notes, which usually is a standing credit. In the second case the bank grants advances in form of an overdraft in current account or in the form of a guaranteed loan.

"The trade bill as the "Memorandum on Commercial Banks, 1925-1933" of L.O.N. rightly stresses, is generally eligible for rediscount at the central bank, but the purchasing power advanced against it becomes part of the permanent working capital of the country, and a sudden attempt to force repayment of the whole or even a large part of such credits outstanding would precipitate a crisis as inevitably as the attempt to liquidate large volumes of securities." Thus, as the Memorandum points out "the meaning and nature of bank liquidity has undergone serious changes since the concept was first developed." It is significant that the belief in the superior liquidity of commercial bills to direct investment comes down from times before the stock market.\*

The third kind of credit was a long-term credit which consisted in temporarily taking over or holding part or the whole of a new series of bonds.

\* cf. also F. Machlup: *The Liquidity of Short-Term Capital* (Economics, 1937), and his *Börsenkredit, Industrie-Kredit und Kapital-Bildung*, Vienna, 1931. As well the writings of H. Mehlton, showing that "savings," i.e. the money destined for investment, not different from any kind of created bank credit.

The ratio of these three kinds of assets in the portfolio of a bank determined its status as regards industry — as well as being a criterion of its liquidity.

Only in post-war years when loans to industry against mortgages on real estate have become more frequent, it has been suggested that long-term "Industrial Credit" should be handled by mortgage banks. This does not seem, however, to be a feasible proposition. Not only are there many enterprises without any real estate assets, which thus would be precluded from obtaining credit, but such property usually forms only a small share in the assets of an undertaking and the credit thus obtainable would be insufficient. Nor could a mortgage bank loan on industrial property which could not easily be used for other purposes. But the real difference between industrial credits and regular mortgage credit on urban or rural property is that whereas the value of the latter is independent of the owner, the former is largely dependent on subjective factors, such as the efficiency of the management or the industrial process. Industrial investments are values quickly created and quickly disappearing. The main asset is often the goodwill of an undertaking which would disappear with the stoppage of the machines. Thus building and machinery often represent no more than scrap value.

The subjective character of industrial credit and the quick developments in industry entail the necessity for its permanent supervision. As such supervision and control is disliked by the manufacturers, particularly in countries where the auditor is not yet a popular figure, German banks advocated a system of keeping the short-term and long-term credit business in one and the same hand, seeing that permanent supervision and contact with the client is thereby automatically maintained, and the securities cover both kinds of credit.

Nevertheless, during the last few years there has been a marked trend to separate industrial credit from the general banking business and to entrust special institutes with this function. This does not mean, however, that deposit banks do not grant credits to industry. But this credit is merely a commercial credit and actually self-liquidating. By granting credit, for instance, to the importer of raw materials, etc., credit is granted indirectly to industry, and the discounts of, or advances against customer notes still form a considerable part of credit to industry. More specialized, though also short-termed,

are export credits, credits against documents, and lombard credits on raw materials, which are frequently also granted by deposit banks as well as by special institutions.

A most important kind of credit which has come into existence only in the last decades are the instalment selling credit, a form of credit sometimes also called "Industrial Finance."

Whereas these credits are more or less for working capital, for production and distribution, i.e. revolving credits, a growing number of institutions concern themselves with the supply of long-term loans to industry for investments in plant, whether against a mortgage or some other security. These banks cater particularly for those smaller and medium-size enterprises which have no access to the capital market. It is mainly this kind of banks, on which we wish particularly to focus our attention in the present Survey. Its functions are best defined by Prof. Dr. H. Gelissen, a former Minister of Commerce and Industry in Holland, who has been one of the outstanding protagonists of Industrial Banks, which should be ". . . institutions to extend long-term credit or capital to industry, and procure the means for this purpose by accepting capital on long-term (debentures, shares). They refrain from all other banking transactions. They can extend credit to industry in different forms, as secured or unsecured credits, with or without participation in the profits, or as capital by acquiring shares or debentures. They can also act as mediators between those willing to extend credits and those in need of it. The long-term credit which industry requires must serve mainly for capital investments, acquisition of land and buildings, machinery, processes and patents. The term of credit may be ten to fifteen years."

Such banks or institutions would have to comply with three conditions which seem to us essential for the Industrial Credit business. They would have: (1) to obtain long-term funds for long-term loans; (2) to develop a special system of investigating into the economic and technical aspects of the undertaking concerned with due regard to its human element, and to specific guarantees; (3) to find ways and means of remaining in close contact with the client, after the loans have been issued. This last point is all the more important, seeing that the smaller enterprises, which are mainly concerned in such loans, are often bewildered by the problems to be faced in the present changing industrial world and would greatly benefit by the guidance of an experienced and well-staffed industrial credit institution.

Another kind of industrial banks which does not supply credit, but capital, are promoting and issuing houses which assist in the development and financing of new industrial enterprises, whose shares and bonds they try to sell.

Other "industrial banks," such as Holding Companies keep, completely or partially, control over enterprises established by them, sometimes on behalf of the state which financed the bank itself or the enterprises in question.

Deserving of interest are also the so-called Investment Trusts developed during the last decades which mobilise the savings of the small man for financing industrial enterprise.

Of more temporary character are the "industrial banks" established for taking over from other banks frozen industrial assets with a view to their gradual liquidation.

Having thus reviewed the whole range of industrial finance in the various forms in which it has specialized in recent times, we now turn to the development to be seen in this field in the various countries.

### III.—Industrial Credit before and after the War.

The supply of credit and finance to industry and the relation of banks to industry before the war differed considerably from country to country. These differences were conditioned by the stages of capitalistic development reached in each country. It always happened in countries with a strong and suddenly rising industrialization and with insufficient capital accumulation that the demand for investment capital exceeded by far the supply. It was then that the typical German method of financing evolved the "advance financing of future stock issues", which was in use all over the Continent, with the sole exception of France, i.e. in the old Austro-Hungarian Empire, Belgium, Italy and the smaller Eastern European States (as well as their successors after the War) and to a certain extent also in the Netherlands. The banks in these countries, often named "mixed" banks for their combining deposit and investment banking functions, or "industrial" banks, maintained, as a rule, close relations with industry. Short-term deposits were used to a large extent for long-term loans. Only gradually the bank tried to liquidate such loans by issuing and selling — often to their depositors — shares and debentures of the enterprises which by loans over the current account had been enabled to increase gradually their fixed capital. Advising their clients with regard to investments is a particular feature of these banks.

As no special forms had developed for such industrial investment credit (if not granted as mortgage on real estate), the forms of commercial short-term credits were applied also to industrial credit. Prolongation was granted for discounted notes and bills renewed when a solo-credit was not paid. In this way this credit is implied to be a revolving credit. If the expansion of the enterprise makes the repayment of the credits difficult, the manufacturer either takes in a partner or issues stocks, and thus the "interim investment credit" (*Zwischen-Anlage Kredit*) is liquidated on the capital market.

The banks often took the initiative in creating new industries, whose shares and bonds they subsequently placed with the general public. Frequently, they maintained as quasi holding companies a substantial proportion of these securities in their own investment portfolio; an appreciable proportion even of their short-term deposits was normally extended in the form of long-term working credits to concerns under their control. They were generally directly represented on the boards of the more important undertakings financed by them. Their general liquidity was largely dependent upon the financial position of a comparatively small number of important customers. On the other hand, this policy resulted in a very active support to industry, particularly for the opening up of new fields of activity, in countries where capital was comparatively scarce. In these countries the depositors were actually the real owners of fixed capital, though legally two sets of debtor-creditor appeared.

This policy was not altogether a voluntary one. Those in charge of the banks in Europe, and particularly in Germany, experienced great difficulties in the years after the War and after the inflation, in as much as the main demand of the economy was for long-term credits for rationalization and expansion of the plants, while the capital available was either for short-terms only or of a kind which was difficult to recognize. There was no doubt as to the economic justification of those credits and the banks felt justified in using deposit capital for this purpose without an undue risk, as a certain part of the total deposits remains permanently with the banks. Thus, short-term deposits were used in all forms and to a great extent for long-term investments; a calling in of such credits would have at once precipitated a grave crisis and the collapse of many enterprises.

In pursuing this policy the banks met with difficulty in recognizing to what extent long-term credits had been granted under the guise of short-term credits.

For the credit needs of the smaller and medium-size enterprises having no access to the capital market, the German big banks had arranged dollar loans for several years, whereby the banks guaranteed the individual loans. As these loans became due during the depression, they aggravated the serious position of the German banks.

In spite of the disastrous consequences which this "mixed" system produced during the Great Depression, it still finds advocates. In a lecture in 1938 on the "Influence of the New Banking Law on the German Credit and Banking System" at the Institute of Bankers, London, Prof. H. Kalveram rose in defence of this system:—

"The demand, he stated, has often been made in Germany that the banks should adapt themselves more closely to the deposit banking of the English banks, which restrict themselves to an adjustment between supply and demand, by discount, acceptance and security loans, and which forego deliberately all direct participation in industry. Our mixed institutions, which in addition to ordinary banking business conduct every kind of industrial transaction and undertake the issue of bonds, have rendered most valuable service in the transformation of Germany from a purely agrarian to an industrial state. The German capital market could not, owing to its great lack of capital, satisfy the demand for long-term capital which had become so urgent by reason of the rapid increase of population in Germany and the pace of its industrialization. Thus the German banks had to overcome the shortage of capital by an adroit system of temporary financing, by using short-term deposits for long-term and investment credits, with the ultimate intention of transforming them into shares and obligations. Such credit policy seems nowadays, if the golden rules for preserving liquidity and spreading risks are followed, not to be wrong in existing conditions, and it should be of considerable help in the building up of the German economy.

"We are of opinion that ad hoc issues of capital without a sufficient testing of the productiveness of the enterprise seeking it contains a serious risk. To limit the grant of credit for industry in the form of capital issues to those applicants only which have previously had a satisfactory business, and therefore a satisfactory banking record, seems to us to be a much safer procedure than the promotion of companies, whose business has hitherto been unknown to the public. In the latter case no sufficient guarantee is given of the productiveness of the business concerned. Mixed banks carry out all kinds of banking

business and are, therefore, able to keep a continuous check on a client's business. The mixed banking system further is more adaptable to business fluctuations and crises and on the whole therefore is able to work in a more rational way."

It is also significant, that German economists still take the view "that it is one of the most regular facts of modern exchange" that long-term credit needs are supplied by short-term deposits, as "within a national economy in toto it is hardly possible to speak of a short-term credit need."

The "German" system, which, it is contended, arose because German banks had neither the opportunity of investing in colonial stocks nor in public utilities, as the latter were financed by Governments, has been to some extent applied also in the United States, where, as in Germany, the process of industrialization had set in unprecedented by a century-long capital accumulation, as was the case in England. The great number of small banks prevented by law from pooling their resources and restricted to keep individual loans within a certain ratio to their capital, could not satisfy the demand of a growing industry. The manufacturer had thus to muddle through with many small short-term credits, and when in the days of a depression a credit was not renewed, the manufacturer was compelled, in spite of the soundness of his business, to declare himself bankrupt. A way out of this entanglement was offered only by financiers and merchants under usually rather stiff conditions which brought the manufacturer under their completed control. These conditions have somewhat changed since the War, as the rapid development of the stock market and the expansion of the banks, as well as the smooth working of the Federal Reserve Bank system benefited industry directly and indirectly. One must also keep in mind the importance for the producer of the instalment credit business, which was practically undeveloped before the War.

But, as it is stated in the "Report on the Availability of Bank Credit in the Seventh Federal Reserve District," by Charles O. Hardy and Jacob Viner (Washington, 1935). "In accepted banking theory in Great Britain and the United States, it has always been taught that banks should make only self-liquidating loans, that is, that they should advance funds to manufacturers only if they were to be used to buy raw materials or meet pay rolls, or to produce goods already sold, the proceeds of the sale being used to retire the loan; or

to finance seasonal operations like cold storage or the merchandising of agricultural products; or to enable retailers to carry inventories through a seasonal peak.

"In practice, however, at least in America, banks have never confined themselves, either in the distant or in the recent past, to this type of loan. To a considerable extent they have financed the purchase of equipment and even buildings, knowing that the money could not be repaid out of turnover, but only very slowly amortized out of profit. To a still larger extent they have pursued a similar policy with regard to the permanent working capital of the business, by which is meant the minimum investment in inventory, accounts receivable, and miscellaneous supplies which is never liquidated so long as the business goes well, as distinguished from the seasonal or other temporary peak load which is actually liquidated from time to time.

"In the normal course of business, inventories are sold and accounts receivable are collected frequently, so that the money comes in just as it does in a true commercial or "one-turnover" loan. But if it is a working-capital loan, the money, though it comes in, cannot be used to pay off the bank loan without restricting the operations of the business. Unless there is a seasonal decline in the amount of working capital needed, or the business is going backward, the inventory is replaced as it is sold and the accounts receivable as they are paid up are replaced by others. Before the depression it was common banking practice to let such loans run on year after year so long as the interest was paid and the borrowers' financial statement continued to show a satisfactory working-capital position. A satisfactory statement meant one which indicated that a substantial proportion of the working capital was furnished by the borrower himself or had been obtained from investors through the issuance of long-term obligations. This requirement was frequently phrased in terms of a 2:1 ratio of quick assets to current liabilities. The 2:1 requirement was partly a safeguard against overvaluation of the assets, but in large part it was designed to insure that the borrower himself held a substantial stake in the business.

"The most striking difference between the present situation and the which prevailed for many years prior to the advent of the present depression is the disfavour into which these working capital loans, nominally short-time, but really long-run, have fallen. This disfavour is evident in the attitudes both of bank examiners and of bankers.

Many examiners have been pressing the banks to secure drastic curtailment of loans classified as "slow," pretty much regardless of the quality of security, and this attitude seems to have the approval even of many bankers."

There was also another development in U.S.A., which was of considerable influence on the industrial credit supply. The progressive concentration in industry eliminated many smaller enterprises which were the chief users of commercial bills. The bigger units aiming at financial independence prefer to secure their finance by access to the capital market.

The subsequent policy of the banks to make loans to the security buying public on the guarantee of the bought securities, stimulated speculation to an unprecedented extent with the known consequences, disastrous both to the public and industry.

From a purely banking point of view, as the League of Nations Memorandum points out, the growth of such loans largely represents the offsetting of a short-term liability with a long-term asset. Even though the individual loans are only short-term, the ultimate use of the funds provided through these loans is for long-term purposes, namely to provide fixed capital for industry. These assets can be liquidated only by the sale of the securities held as collateral. This is, however, a slow process and for throwing large masses on the market would lead to sharp falls and large losses.

Quite different was the attitude in England and the Scandinavian and Latin-American countries, where the banks devoted themselves exclusively to what has been described as Deposit Banking, *i.e.* to receiving money on deposit and lending it on short-term to commerce and industry in the form of discounts and advances. They avoid normally immobilising their resources in long-term credits to, or participations, in industrial enterprises. In these countries the banks, as a rule, refrained from exercising any direct influence on their customers.

This system could develop because in England the main financier of industries is not the bank, but the merchant; nowhere is the connection between bank and industry looser than here. The merchant — the financier of trades before the days of the factory system — proved to be the most reliable credit source also in the new era. What enabled him to undertake this function in the economy was the wealth accumulated during many generations, coupled with the credit

facilities extended to him by the banks. He was thus able not only to sell the raw materials on credit, grant advances on the produce, or sell equipment on credit, but frequently to lend working capital to the manufacturer, and even capital for expansion of the plant.

Thanks to the accumulated wealth of the nation also the manufacturer was able to cover his financial needs among his immediate surrounding, *i.e.* relatives and friends, and although the Limited Company is the most frequent form of enterprise in industry, actually the majority of such cases are owned by families only.

At certain times industry, not satisfied with these credit facilities, tried to attract deposits from the public directly. Thus we find that the cotton industry before the War had at its disposal cheap credits several times in excess of the share capital. It is impossible, however, for such a system to work satisfactorily at all turns of the business cycle. Thus it proved the exception rather than the rule in England where the principle of rigid limitation of long-term credits to long-term deposits is strictly adhered to. It would appear that the formulation of this principle was a result to the English practice rather than its promotor.

English banking methods are followed to some extent in France, where the *banques d'affaires* and the important private banking houses acted as investment bankers; the leading *banques de crédit* operated chiefly as deposit banks besides playing an important rôle as intermediaries for the issue of Government and other public loans, both domestic and foreign — a form of investment which was particularly attractive to French capitalists. The big commercial banks in Switzerland, which, however, did not play the predominant rôle of similar institutions in other countries, also undertook industrial banking on a large scale, but owing to the early establishment of special trust companies acting as intermediaries between the banks and industry, the direct relations of the banks with industry were less intimate.

A somewhat different picture, however, is seen in post-war Europe, when (according to the Memorandum on Commercial Banks, 1913-1929, of L.O.N.) "the contrast between pure deposit banking and industrial banking systems has been considerably weakened. The systems of the former type have extended their operations over a considerably wider range of activities and have entered into much closer relations with industry than formerly. This is partly the result of the first post-war depression which seriously affected many of their most

important customers; short-term credits became frozen and, to protect their own interests, the banks were frequently obliged to take over the security for loans previously granted and to assume direct control over large industrial undertakings. The direct relationship thus established between banks and industry enabled the former to exercise an active influence on the reorganisation of the latter. The gradual liquidation of the banks' industrial engagements proceeded relatively slowly and had been only partly effected when the present depression set in. Furthermore, in some of the countries concerned, issues of industrial share and bonds especially those of older industries, have been less easily marketed in the past decade than formerly; industry, accordingly, has had to rely upon bank credits to a greater extent."

There was, however, also another factor (to which attention is drawn in the World Economic Survey, 1931-1932, L.O.N.), viz. that "in a great number of countries the extension of business enterprises was made possible by bank advances rather than by capital subscription," because "the heavy taxation on profits derived from large scale enterprises has been a powerful incentive to the financing of debt rather than risk bearing equities."

On the other hand the mixed banking system, notwithstanding the great services it had rendered to the industrial development in various countries, had led to an almost universal collapse of the continental banking system, and even the big banks, partly voluntarily, partly under the pressure of stringent banking legislation, now tend to devote more attention to deposit banking than formerly. The amount of shares held in industrial undertakings has been reduced not only in proportion to total assets, but in many cases, even in an absolute sense as compared to pre-war figures, and the methods adopted for the long-term financing of industry have been *volens volens* substantially modified. The risks involved in immobilising a large proportion of short-term funds in long-term investments having been so patently exposed during the difficult periods of shaken confidence, it is not surprising to find new methods being devised, such as financial trusts or holding companies, financed by debenture issues, which enabled the banks to exercise an influence on industrial concerns without becoming too closely identified therewith. Such companies have been in existence in U.S.A. for some time and recent legislation aims at the complete severance of such "Security Affiliates" from deposit banks. But also in other countries there has been a marked

development of such companies, both in countries where industrial banking is conspicuous and in those where deposit banking predominates.

Also in those countries where the strict balance of power between deposit and investment banking, as vindicated in the days of the "grosse Banken Sterben" 1929/32, has been maintained, the supply of credit to industry proved unsatisfactory and the attitude of the banks towards industry met with severe criticism, as the 1934 programme of the Liberal Party in Great Britain (*The Liberal Way*, p. 28) clearly shows:

"Banks dealt harshly with industry at a time when it was suffering from the effects of a policy of deflation for which the banks themselves are largely responsible. They are charged with having favoured the big financier-combines, and failed to help small and struggling, but sound concerns. This is largely attributed to the huge size of the modern Banks, especially the Big Five, in which centralization has been carried out so far that personal touch with customers has been lost, and local managers have been reduced to automata by headquarters red tape...<sup>\*</sup> It is complained that the power of the banks has been used in such a way as to make money the master, when it should be the servant of industry." And the complaint is raised against the Bank of England that it is more concerned with the prestige of British money in the eyes of the world, than with the need of industry, due to the fact that the directors of the Bank of England are chosen from the big City houses and not from industry.

And the Macmillan Report, 1931, opened a discussion on the difficulties encountered by smaller industrial enterprises in procuring the requisite credit, a discussion which has continued unabated even in recent times.

There is, however, also another important aspect which should not be overlooked. This has been very clearly put in the Banking Supplement of the "Economist" on May 18, 1935, where it is stated that "the

<sup>\*</sup> In U.S.A. where country-wide branch banking does not exist, local unit banks are frequently nothing but deposit acceptance offices of larger banks. The complaint before the Senate Banking Committee (1939) that "Banking is being done to-day on a chain store system lacking the personal touch" and that for this reason "character loans" are no more available, corroborates the identical experience in other countries.

final question is that of *finding new outlets for the banks' resources.*\* Mr. McKenna emphasized the need of liquidity and security. Yet we cannot overlook the two gaps in our present financial system, namely, the difficulty of providing medium term credits and the difficulty of finding capital for small undertakings."

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\* The pressure of liquid funds particularly in U.S.A. with its all time high deposits must eventually lead to a new approach to industry on part of the banks. There are indications for such a trend of developments "towards Industrial Banking." The "Economist" of November 16, 1940, noted under this heading:

"One of the ways out of the acknowledged impasse in which the private or merchant banks of the City of London now find themselves, is the establishment of closer or more direct links with industrial enterprises. Evidence has already accumulated of the growth of this tendency. The sponsoring of industrial issues is a type of business with which a number of the private banks have been associated for some years past. From sponsoring an issue to taking a direct participation in it is usually a small step. The next stage in the evolution of the merchant into the industrial bank is the acquisition of a participation in industry as a direct self-contained business proposition."

Similar tendencies are observed in U.S.A. where, according to "The Index" (No 4, 1939, "Banking as a Business"): "More recently, because of the enlarged discount facilities open to Federal Reserve member banks since 1935 and the strong cash position of many institutions, a considerable number of banks have been able to add to their earning assets by granting term loans to industry for periods ranging up to 10 years to aid in the retirement and refinancing of outstanding obligations or to provide new capital. According to a recent study by the Federal Reserve authorities, weekly reporting member banks in 101 leading cities had made 6,700 loans extending for three years or more with a total original value of \$ 960,000,000. Such term loans, of course, carry higher interest rates than short-term commercial borrowings and therefore enhance bank income."

And the Report of the Chase National Bank for 1939 states that "the bank has continued to make medium-term loans in those cases, where the nature of the loan and the character of the borrower justify a longer maturity. The total dollar volume of these loans on the books has now increased from what it was twelve months ago. There is a wide variation in the maturities designated for the term loans, but for the most part they range from one year to five years, with the average at about three and a half years. In a few special cases, a term extending as long as ten years has been approved. The principal amounts vary all the way from \$ 20,000 to several million dollars, depending on the individual situation. Payments are scheduled serially at specified rates. However, in many cases the loans are paid off before they are due, thereby reducing the actual average life.

The quality of these intermediate credits is high and while the interest rates are moderate they are, nevertheless, somewhat better than the yield on high-grade investment securities of comparable maturities at current market prices."

It was under the influence of the Great Depression that the problem of industrial credit became accentuated to a degree which called for intervention on the part of the governments. The banks which had so liberally provided short-term money for long-term credits, now saw their assets frozen and were not in a position to issue further credits to industry. Any attempts to liquidate such frozen assets would have caused their complete loss; in many cases the banks had to invest further capital in order to safeguard their assets. It thus became necessary for the state to take over from the banks their frozen assets and to restore, at least partly, their liquidity in order to prevent their failure. On the other hand the industries could not satisfy their credit needs on the capital market nor could the restricted credit market offer them any relief. In the case of those smaller enterprises which even in normal times experienced difficulties in satisfying their credit needs, the situation became particularly acute.

Emergency measures in the field of industrial credit had thus a threefold aim: to assist the banks in liquidating the frozen assets without sacrificing the interests of their clients; to provide new credit through the thus reconstructed banks or specially created institutions; and, finally, to create new forms of credit and new sources for the specific needs of small and middle-sized industry.

#### IV.—The Special Problem

This last-mentioned problem, *viz.* the supply of medium and long-term credit to small and medium-sized manufacturing undertakings although existing before the Depression and even before the war, had become particularly acute as a result of the recent developments and claimed increasing attention especially in countries where during a period of rapid industrial expansion, rationalisation and combination, the small undertaking was considered obsolete and doomed to disappear. In fact, it was regarded by some as being necessarily less efficient than the larger unit and generally subject to higher costs. Its elimination, therefore, was advocated as a step towards the consolidation of the modern industrial structure.

The holders of this view overlooked the fact, however, that the vast majority of the smaller undertakings belong to the finishing industries and that such industries become more and more unsuitable for combination in the degree that they are removed from primary production.

Moreover, according to the American point of view "although small enterprise has had to bear the brunt of the restrictive pressure involved

in the bank credit liquidation after the depression, there has never been any conclusive evidence assembled to prove that small enterprise is generally high-cost marginal enterprise. In some industries which, by virtue of their production problems, require large capital investments and large scale organization for effective and profitable operation, the small producer may well be a high-cost manufacturer. In other industries, however, it may be fairly stated that the small establishment is frequently just as effective on a profit and loss basis as the large concern. In still others, requiring great flexibility of adjustment to markets, producing for a local or limited market, manufacturing a bulky or perishable product, or employing highly skilled labour, the smaller enterprise may be more effective than the larger one." (Young, *The Availability of Bank Credit*).

Furthermore, as is pointed out in the U.S. Survey of Reports of Credit and Capital Difficulties, submitted by small manufacturers, "many of the smaller manufacturing plants are located in relatively small localities and are largely owned and operated by individuals or small corporations closely identified with their communities. They play an important rôle in the general economic and social life of their respective communities, since they tend to stabilize employment and, in many instances, are the chief consumers of locally produced raw materials.

"It is, therefore, apparent that small manufacturing plants predominate and that they are a significant source of employment. This is in itself evidence that they are generally capable of successfully meeting competition. Small industrial establishments are so woven into the economic and social fabric of the Nation that their continued progress may be considered a fundamental prerequisite to sound industrial development."

It is significant also that many recent publications on the present problem, whether American, English or German start off with a statistical appreciation of the importance of the small undertakings in the economic life of their respective country, and particularly of their labour absorbing capacity.

As a matter of fact, owing to the hitherto prevailing trend to underestimate the importance of small industry, small undertakings had been subject to the discrimination on the part of banking circles for reasons varied in each of the countries concerned.

In Germany the concentration of banking is accused of having favoured the development of large scale enterprises. The latter, in turn, looked to the large banks to provide credits and to issue shares. Thus it came about that the system of industrial financing favoured the fusion of provincial private banks with the large joint stock banks, whose branch managers had neither the initiative nor the authority to deal with the long-term credit problem of the small unit. The latter, besides being insignificant in size, were usually privately owned and not organized as a limited company. Hence they did not fit into a system aiming at the liquidation of the loan by a debenture or share issue.

In U.S.A., according to the Young Report, "less and less bank credit from that year (1922) on to 1929 was furnished to industry and trade directly through commercial loans, and more and more, indirectly through loans to consumers, loans on securities and loans on real estate. From the point of view of industry it meant a tendency for business to finance itself less with funds obtained directly from banks and more from additions to surpluses out of earnings and security offerings to the public, at first by bonds and later by stocks. This, in turn, led to a growing degree of financial self-sufficiency, notably of the larger units, while smaller manufacturers, already before 1929, found it difficult to obtain their long-term credits without recourse to the renewed short-term loans." This, again, aggravated the position, as small concerns tend to operate more frequently on a lower margin of owned working capital resources than large concerns, and during the depression a big percentage of working capital had been dissipated. The Report winds up by advocating the setting up of a special intermediate-term-credit-system, if necessary, by the Federal Government, for small industrial concerns. Proposals to this end have been introduced in the U.S. legislature on various occasions and the hearings on the Mead-Allen bill before the Senate Committee on Banking and Currency, and the evidence before the Temporary National Economic Committee, both in 1939, contain the most instructive information on the problem.

The far-reaching changes in the financial structure of post-war England to which we have already referred led to the establishment of a number of special institutions, especially after the publication of the Macmillan Report, 1931, quoted below.

"It has been represented to us that great difficulty is experienced by the smaller and medium-sized businesses in raising the capital which

they may from time to time require, even when the security offered is perfectly sound. To provide adequate machinery for raising long-dated capital in amounts not sufficiently large for public issue, i.e. amounts ranging from small sums up to, say, £ 200,000 or more, always presents difficulties.\*

"The expense of a public issue is too great in proportion to the capital raised, and therefore it is difficult to interest the ordinary investor by the usual method; the investment trust companies do not look with any great favour on small issues which would have no free market and would require closely watching; nor can any issuing house tie up its funds in long-dated capital issues of which it cannot dispose. In general, therefore, these smaller capital issues are made through brokers or through some private channel among investors in the locality where the business is situated. This may often be the most satisfactory method.

"As we do not think that they could be handled as a general rule by a large concern of the character we have outlined above, the only other alternative would be to form a company to devote itself particularly to these smaller industrial and commercial issues. In addition to its ordinary capital, such a company might issue Preference share capital or Debentures secured on the underlying Debentures or shares of the companies which it financed. The risks would in this manner be spread, and the Debentures of the financing company should, moreover, have a free market. We see no reason why with proper management, and provided British industry in general is profitable, such a concern should not succeed."

Similar statements can be found also in the report of the Swedish Parliamentary Commission, 1934, and in similar publications in other countries, which eventually resulted in the measures with which we are here principally concerned. These measures are the reason the very rapid development and the access of power on the part of public banks (i.e. credit institutions belonging to and or controlled by Governments and other public bodies, which carry on all forms of deposit and industrial banking), and it is on them that industry has become dependent to a large extent in recent years.

\* According to an examination of statements listed with the U.S. Securities Exchange Commission for the first semester, 1937, selling expenses of issues of common stock under \$ 100,000 were approx. 30 per cent. Of 584 smaller issues totalling \$ 321,000,000 only \$ 74,000,000 or 23 per cent were sold within a year after registration. In one-third of the issues, there were no sales at all. While the overhead costs for large issues, as for instance the du Pont \$ 50,000,000 preferred stock were 2.7 per cent, such costs become prohibitive for issues below \$ 1,000,000. This amount corresponds to the £ 200,000 mentioned in the Macmillan Report.

## PART II

## Recent Developments of Industrial Credit Supply in :—

A.—*Europe*

- (1) Austria.
- (2) Belgium.
- (3) Bulgaria.
- (4) C.S.R.
- (5) Denmark.
- (6) Eire.
- (7) Estonia.
- (8) Finland.
- (9) France.
- (10) Germany.
- (11) Great Britain.
- (11a) Northern Ireland.
- (11b) Scotland.
- (12) Greece.
- (13) Holland.
- (14) Hungary.
- (15) Italy.
- (16) Latvia.
- (17) Lithuania.
- (18) Norway.
- (19) Poland.
- (20) Portugal.
- (21) Rumania.
- (22) Spain.
- (23) Sweden.
- (24) Switzerland.
- (25) U.S.S.R.
- (26) Yugoslavia.

B.—*British Overseas Empire*

- (27) Australia.
- (27a) Queensland.
- (28) Canada.
- (29) New Zealand.
- (30) South Africa.
- (31) India.
- (32) Ceylon.

C.—*Near East*

- (33) Egypt.
- (34) Iran.
- (35) Iraq.
- (36) Palestine.
- (37) Syria.
- (38) Turkey.
- (38a) Hatay.

D.—*Far East*

- (39) China.
- (40) Japan.
- (41) Philippine Islands.

E.—*Americas*

- (42) U.S.A.
- (43) Mexico.
- (44) Argentine.
- (45) Brasil.
- (46) Chile.
- (47) Columbia.
- (48) Peru.
- (49) Uruguay.

## A.—EUROPE

## (1) AUSTRIA

Until the Great Depression the Austrian banking system was distinct from every other European system in that it embraced deposit banking, industrial finance, industrial management and commercial activities to a degree elsewhere unknown. Although the degree of their interest in industry and the nature of their relation with industry varied considerably, the Viennese banks were industrial banks par excellence. Besides ordinary banking the Austrian banks carried on business as company promoters and finance houses. They managed industrial concerns, and traded on their own account in commodities produced by the concerns under their control, such as sugar, coal and paper.

They controlled directly or indirectly the great bulk of industry of the country, by securing an adequate number of shares and a position on the board of directors. Moreover, since the War it was a fairly common practice for shareholders in industrial enterprises to delegate their voting rights to banks specially interested in them, and thus to enable the banks to obtain control without direct participation.

In contrast to other financial centres, the Viennese banks were the principal source of money and capital in Austria. They were, in a real sense, the intermediary between saver and industry, as private investment in other than public issues was little practised and small investments went into the savings account of the banks or were used for the purchase of "Kassenscheine."

The banks themselves not only held a substantial amount of industrial shares, but supplied industry with short-term loans which have tended in fact to run on indefinitely and to be used, partly at least, for investment purposes.

This system grew up when rapid industrialization was necessary, particularly after the collapse in 1873 when industry and trade seemed to have come to a complete standstill. The system did much for Austria, but its main disadvantage always lay in the fact that a great part of the country's wealth was represented by banking assets whose value depended solely upon the successful continuation of the banks' other activities. The fact that certain principal banks have become more and more indebted in order to support their weaker industrial concerns, has been a factor of vital importance in recent years.

The years 1929-1933 were a period of catastrophe for the big Viennese banks. Owing to their close association with industry they were caught in a vicious circle. Every attempt to increase their liquidity by calling in credits involved the freezing of part of their remaining industrial assets and a further fall in their assets represented by securities.

The final and fundamental change in the Austrian banking system took place, when after the collapse of the Credit Anstalt, the last survivors of Austria's banking crisis were merged into one big institution in April, 1934. At that time, the industrial holdings of all the banks concerned (which had not been taken over by the reconstructed Credit Anstalt) were transferred to a new institution, the "*Oesterreichische Industrie Kredit A.G.*" This was built up with the assistance of the National Bank on the ruins of the *Niederösterreichische Eskompte Gesellschaft*, and assumed the character of a long-term investment or holding company rather than a bank.

It is estimated that 90 per cent of the Austrian industry was indebted to — and therefore to a greater or less extent controlled by — the Credit-Anstalt, whether directly or by the latter credits to and holdings in the *Industrie Kredit A.G.* Under a system of such close connection between banks and industry, concentration of banking may naturally tend towards concentration of industrial establishments as well. The first steps in this direction have been taken.

The *Oesterr. Industrie Kredit A.G.* (Austrian Company for Industrial Credit Ltd.), had been endowed with a share-capital of 10,000,000 öS., and an additional guarantee of the State for 20,000,000 öS. Its other liabilities amounted at December 31, 1936 to 253,442,000 öS. Amongst its assets the position "Permanent Investments" öS 38,627,239 is of particular interest.

The bank is authorized to carry on all kinds of banking business and to establish and carry on all kinds of industrial enterprises by purchase of or underwriting stock therein, and may manage, control and reorganize such enterprises, organize and participate in holding companies and trade in commodities produced by such enterprises in special commercial departments of the bank.

The bank may accept deposits of at least 100 öS (£ 4), and fixed deposits (against deposit certificates) of at least £ 2 (öS 50).

The bank may issue debentures guaranteed by the state which are covered by loans by holdings of gilt-edged securities, by mortgages on

industrial property or against secured debentures of industrial enterprises.

The bank is further entrusted with the management of a special department for "Energiewirtschaft," i.e. power and gas.

Detailed regulations are embodied in the Statutes dealing with mortgages on industrial buildings and equipment, serving as security for debentures and the terms of repayment. These loans can be issued in cash or in debentures. Buildings easily convertible into living quarters can be accepted as security of such loans up to 50 per cent of their value, land up to two-thirds and machinery up to one-third of their value.

## (2) BELGIUM

The close contact between banks and industry, which was characteristic also for the Belgian banking system, dates back to the earlier parts of last century. Industry was then beginning to be organized on a joint-stock basis, and owing to the scarcity of capital, the banks, and particularly Société Générale Belgique (pour favoriser l'industrie nationale) which was established in 1822, took an active part in the creation of new companies, which they kept at least partially under their control and to which they extended long-term working credits. Industrial banking thus developed earlier in Belgium than elsewhere, and these characteristics have ever since been maintained, and even strengthened after the War.

It was only during the Great Depression that the potential danger of direct relationship with industry appears to have been realized by the big banks, and the four largest banks created holding companies to serve as intermediaries between them and industry. But the decisive step taken in this direction was the Banking Law of July 31, 1934, which requires the banks, either to give up their industrial activities or to split up into two distinct concerns with a view of separating their deposit and commercial banking from their industrial banking activities.

To facilitate this reorganization the Government enabled the *Société Nationale de Crédit à l'Industrie* (S.N.C.I.) to take over the industrial assets of the deposit banks.

The *Société Nationale de Crédit à l'Industrie* already planned before the War came into existence as a semi-public mortgage bank for the supply of credit to the industrial middle class after enactment of the law of March 16, 1919, when (after the War) the lack of adequate credit facilities was a serious problem in Belgium. This legislation authorized the formation by the National Bank of a kind of subsidiary corporation with a capital of 25 million francs, for the purpose of granting long or medium-term credits to industrial, agricultural or commercial enterprises mainly against the security of war damage compensation claims. The State guaranteed the interests on bonds over 5 years' duration, and reserved its rights of controlling the activities of the Company.

The company (S.N.C.I.) whose capital was gradually increased from Fr. 25,000,000 in 1919 to Fr. 205,000,000 in 1934, half of which was subscribed by the large commercial banks, granted loans for terms up to 20 years against a real, personal or bank guarantee. In 1937, its statutes were amended in such a way as to increase the influence of the Government and of the National Bank and to enlarge the scope of its operations, while the maximum term of its advances was reduced from twenty to ten years. Its resources consist primarily of its own capital (subscribed by private individuals and by the private banks) and reserve funds. It may accept time deposits of at least 1,000 francs and for at least 3 months. It issues debentures up to ten times its share capital and deposit certificates of 1-5 year maturity, the interest on which is guaranteed by the State. The rate of interest both on loans and deposits is to be fixed by the board.\* Loans must be granted as close to cost as possible, but the company none the less makes a satisfactory annual profit. Although the S.N.C.I. is no longer a subsidiary of the National Bank, the latter's branches act also as branches for it.

\* The rate of interest in 1928 and 1930 were 5% and 5½% respectively on loans guaranteed by the National Bank, and 5½% and 6% resp. on direct loans.

The activity of the Company in making advances to war damaged enterprises lasted until 1924, and credits under this heading reached a total of 2,000,000,000 francs. Legislation in the latter part of that year created the Association Nationale des Industriels et Commerçants pour la Reparation des Domages de Guerre, which was to take over the engagements of war-damage borrowers to the S.N.C.I. It was agreed that the "public debt amortization fund" should retire bonds of the newly-formed association and held by the S.N.C.I. at the rate of 250,000,000 francs a year. This operation was completed in 1929, and the bonds are no longer carried in the Company's balance sheet, after the rapid expansion in the first years on account of post-war reconstruction. Since 1924, accordingly, the Company has done only a minor amount of business in advances on war-damage claims, and has been able to concentrate on the type of credits for which it was originally created. After 1928, the volume of business again increased; loans outstanding totalled about 1,300 million francs from 1930 to 1934, the greater part guaranteed by private banks.

While the S.N.C.I. has performed its functions with great efficiency and usefulness, the Great Depression has made it apparent that further extension of credit to Belgian commerce and industry was urgently needed. Consequently, the budget of April 14, 1933, contained a provision for turning over to the S.N.C.I. a total of 796,632,000 francs in bonds of the "National Association of Industrialists and Business Men for the Reparation of War Damages," held by the Government. These bonds are to serve as security for further credit guarantees; and since interest and amortization costs on the bonds are regularly carried in the public-debt budget, no additional expenses will accrue to the State.

According to the law of July 31, 1934, the Company was authorized to take over from the joint-stock banks sound long-term loans and participations in exchange of 3 per cent. Government guaranteed debentures (which the National Bank accept as collateral guarantee for advances) up to the amount of 2,000 million francs. The Company gives 20 years respite to the debtor who has to pay only 4½ per cent interest (instead of the 8 per cent charged hitherto). The banks remain responsible to the Company both for capital and interest on the loans thus transferred to the Company. The difference of 1½ per cent between

the interest on the debentures and the loans should enable the Company to accumulate a reserve fund against eventual losses. (In twenty years this fund should amount to 49 per cent of the loans). On September 30, 1935, debentures in value of 1,884,697,000 francs had been issued.

The State also guarantees the repayment both of capital and interest of 4 per cent debentures issued in order to finance purchases of raw materials and finished products by industrial, commercial and agricultural undertakings. A limit of 500 million francs is placed on this guarantee. On September 30, 1935, no business had been concluded.

The Government also guarantees the repayment of debentures, up to 2,352,310,000 francs, issued by the "Company for the purpose of reconstructing, improving, transferring and developing industrial, commercial and agricultural undertakings." On September 30, 1935, the debentures of this class issued amounted to 1,043,180,000 francs.

These measures have completely changed the policy and the structure of Belgian banking, and, at the same time, reduced the cost of banking credit.

To assist the artisan classes, another decree in 1934 provided for the establishment of a temporary institution, the "Fonds Temporaires de Crédit aux Classes Moyen" in addition to the existing "Outillage Artisanal" and the "Caisse Centrale de Petit Crédit Professionnel." The funds for this institution were raised by issue of 100 millions francs in debentures for advances to small industry, by a grant of 50 millions by the National Bank, the Caisse d'Épargne and Government, and by issue of Government guaranteed bills up to a maximum of 250 millions francs for 20 years at 4½ per cent.

Other credit assistance to industry, in addition to export credits, was given by Government through the *Savings Bank*, by a guarantee up to 50 millions francs for the purpose of issuing loans to artisans and small manufacturers for the purchase of modern equipment. On September 30, 1935, 11,802,000 francs of such loans were issued.

A State guarantee of 780 million francs was also granted for the debentures of the *Association Nationale des Industriels et Commerçants* (A.N.I.C.) for credit facilities in favour of Belgian industry and commerce.

Up to September 30, 1935, loans to the extent of 725,265,000 francs were issued under this guarantee.

Furthermore, Government in 1934 has reduced to 4½ per cent the interest rate on loans granted by institutions of a public character, as for instance on the 1,300 million francs loans granted by the S.N.L.C. before its reorganization in 1934.

Continuing the policy of increasing credit facilities to small industry, the Government, in 1937, extended the activity of several public credit institutions; the Office central de crédit hypothécaire, established in 1936 to assist in the liquidation of mortgage loans, was authorized in 1937 to grant mortgage loans on buildings for industrial purposes. A series of decrees provided for the co-ordination of the institutions entrusted with the granting of credit facilities to the middle classes. The Temporary Credit Fund for the Middle Classes, set up in 1934 and due to be liquidated in 1939, was transformed in 1937 into a Caisse nationale de crédit aux classes moyennes and its activity extended to 1959. A decree of 1937 established a Conseil de co-ordination des institutions de crédit aux classes moyennes, entrusted with the coordination, with the aid of the National Bank and the General Savings Bank, of the activity of the Caisse nationale de crédit aux classes moyennes, the Fonds de garantie au crédit pour l'outillage artisanal (created in 1929), the Caisse centrale de petit crédit professionnel (created in 1929 and reorganized in 1937) and the Office central de crédit hypothécaire. The activity, the organization and the powers of the credit institutions "of public interest" were co-ordinated in 1937 by a Conseil des institutions de crédit. These institutions have been only recently established and the volume of their operations is not large.

It is of interest to note the effect of the reorganization of Belgian banking as a result of the law of July 31, 1934. The table on the following page shows the splitting up of the previously existing "mixed" banks into deposit banks and Industrial Finance and Holding Companies.

Hitherto known as	Old (a) deposit bank New (n) deposit bank	Old (a) holding co. New (n) holding co.
Société Générale de Belgique.	(a) Banque de la Société Générale de Belgique (with Union de Banques de Provinces = 12 banks). (n) Banque d'Anvers.	(a) Société Générale de Belgique. (n) Banque Belge pour l'Étranger-Extrême Orient. (s) Banque Italo-Belge.
Algemeene Bankrekeningrijg. Bank voor Handel en Nyeveheid. Banque de Bruxelles.	(a) Krediet Bank voor Handel en Nyeveheid. (n) Zentralkas voor Landbouwkrediet. (n) Banque de Bruxelles.	(a) Crédit Général Industriel. (n) Société de Bruxelles pour la Fine et l'Ind. (Brufina).
Crédit Anversois.	(a) Crédit Anversois.	(a) Société de Participations Fin. et Ind. (Partifina).
Comptoir de Centre. Cassa d'Escompte et de Dépôt (Charleux). Société de Gestion et de Partic. Financière.	(a) Comptoir du Centre.	(a) Comptoir Ind. et Fin.
Banque de Commerce d'Anvers.	(a) Banque de Commerce.	(a) Société de Placements.
Banque Belge pour l'Industrie.	(a) Banque Belge pour l'Industrie.	(a) Cie. Belge Immobilière et Financière.
Banque Ougree Marihay.	—	(a) Cie. Fin. et Ind. d'Ougree.
Banque H. Lambert.	(a) Banque Lambert.	(a) Mutuelle Lambert.
Société Belge de Banque.	(a) Société Belge de Banque.	(a) Cie. Chimique et Ind. de Belgique.
Banque Industrielle Belge.	(a) Banque Industrielle Belge.	(a) Fédération d'Entreprises Ind. et Fin.

### (3) BULGARIA

Bulgaria has no special institute for credits to industry. Several attempts to create such an institution remained abortive.

The National Bank, as well as the private banks always supplied credits to industry in different forms, as long as sound guarantees could be provided.

In recent years a tendency could be observed to advance such credits in current account against personal guarantees, or against merchandise, while frequently a mortgage on real estate was accepted as additional guarantee.

## (4) CZECHOSLOVAKIA

A characteristic of Czechoslovakian banking was the close co-operation with industry. The banks carrying on the Austrian tradition had a direct share in industrial enterprises, and operated commercial departments which handled the sale of the products of the concerns under their control.

Industry in C.S.R. (then Austria) developed later than in the West. Thus, owing to the country's later economic maturity it was not possible to rely on rich traders for the development of industry. The banks, therefore, took the initiative and have always remained in steady contact with industry. Without them industry would never have won its great power and importance in the short time it did.

(It is significant that the first Vienna-independent bank, the Bohemian Discount Bank was established in 1864, as a creation of German industrialists and wholesalers.)

So far no special credit facilities are available for industry, but measures were reported in 1935 to be under consideration for the creation of facilities for the obtaining of mortgage loans on industrial undertakings.

The Rediscount Institute (Czechoslovakische Reescompte und Lombard Anstalt) established in 1934 on the principle "to grant to or act as intermediary in obtaining credits for financial institutions, either against bills of exchange or against collateral," was anticipated, by its operations to tend to create new capital in readiness for an industrial revival. It was a novel and drastic method for liquifying credit, frozen up in industry.

The original funds of the Institute amounting to Kc. 100,000,000 were contributed by the State, which guaranteed interest and amortization of the Institute's discounts abroad up to Kc. 500,000,000. Further funds were obtained by compulsory deposits on the part of the banks to the extent of 10 per cent of all their new deposits, and on the part of the insurance companies, of 15 per cent of all accruing premium reserves.

The establishment of the Institute was intended, by the concentration of available funds, to secure means for satisfying the needs of the banking institutions for credits based on actual economic requirements; in

other words to increase the latter's liquidity by granting credits against Government securities. This step was taken in preference to attaining the same end by a more liberal credit policy on the part of the National Bank. As anticipated, it has had the effect of improving the market for State securities, which showed a rising tendency. The new Institute granted or secured advances for the banks on bills or other loans; but it was not empowered to advance funds for the reconstruction of banks. (Loans were granted up to 60 per cent of the stock-market value of securities and also on mortgages.)

#### (5) DENMARK

It is significant for the economic tendencies prevailing in Denmark, that the first attempt to establish an industrial credit institution took the form of a co-operative society. The "*Kredit foreninges for Industrielle Ejendomme*" (Credit Union for Industrial Property) was promoted in 1898. Its rules have subsequently been amended ten times. Its object is to raise capital by the issue of debentures for loans to and on industrial undertakings. Each series of debentures is also guaranteed jointly and severally by all the members who obtained a loan out of the respective issue. Members could leave the Union only after repayment of their loan and after release from their share in the guarantee, ascertained by the General Meeting on basis of the accounts.

No loan was to exceed Kr. 600,000, nor 50 per cent of the value of the mortgaged property.

The election of the Managing Director by the General Meeting was subject to the approval of the Ministry of the Interior.

This organization, apparently, did not suffice the country's requirements and Government felt compelled to take further measures. The law of March 27, 1934, authorized the Minister of Commerce and Industry to grant loans or guarantees for loans to industries up to 6 million Kr., including 2 million Kr. for new industries, such loans to be secured by pledges, guarantees or some other way (including joint and several guarantees of members of co-operative undertakings). The loans are to be repaid over 12 years and bear interest at the lowest rate which the State has to pay for its own loans. During the currency

of the loan no dividend exceeding 5 per cent may be paid on the share capital of the borrowers. Profits exceeding this rate (after the necessary depreciation has been provided for) are to be applied to the reduction of the principal. A special committee consisting of one representative each of the Ministry of Finance, the Industrial Council and the Trade Unions is formed for the administration of this loan act.

Similar loans not exceeding 100,000 Kr. can be granted to handicraft undertakings.

#### (6) EIRE

The Industrial Credit Act, 1933, empowered the Government of the Irish Free State to form a company whose principal object was the providing of industrial credit, and the acquisition by the Minister of Finance of share capital therein. *The Industrial Credit Company Ltd.* was incorporated during the same year at Dublin with an authorized capital of £ 5,000,000, of which £ 1,000,000 are subscribed, and £ 812,500 paid up largely by Government. (Out of the 5 or 7 Directors, the majority is appointed by the Minister of Finance, as long as the latter holds at least one-half of the shares).

The object of the Industrial Credit Company is to act as underwriter and investment banker, to carry on the business of an issuing house and to engage in the promotion and financing of industrial undertakings in Eire. As the main agency through which public subscriptions are sought for shares in new flotations, the company has played a prominent part in the raising of funds for the financing of the Irish Government's industrial development programme, and has, in fact, been mainly responsible for the development of a capital market in Dublin in the past few years.

Its total underwriting turnover up to October 31, 1938, amounted to £ 4,597,107, a sum equivalent to over 60 per cent of the aggregate of issues by companies in the Dublin market between the date of the company's incorporation and the date of the latest accounts. The period 1937-1938, however, was one of comparative stagnation in the capital market and the net cash total of underwriting business handled by the company amounted to only £ 200,000, compared with £ 428,700 in 1936-1937 and with £ 1,149,400 in 1935-1936.

During the first five years (1934-1938) 27 issues were brought on the market, of which the underwriters were called upon to take only 3.7 per cent.

In addition the Company issued loans to an extent of £ 279,616 which could not, for various reasons, be suitably financed elsewhere.

#### (7) ESTONIA

In Estonia the connection between banks and industry has not been too close. During the years 1930-1931 two medium-size joint stock banks failed, owing to mismanagement of certain industrial enterprises in which they were concerned too heavily.

There is no special institute for industrial credits in Estonia, but the National Mortgage Bank of Estonia, a state-owned institution, has also granted industrial credits, similar to the Mortgage Bank of Latvia.

#### (8) FINLAND

The Finnish banking system resembles in its structure that of Sweden. It has the main characteristics of the deposit bank type; but, although direct industrial participations are rare, most of the banks extend large credits to industry on long-term. A considerable part of these credits became frozen during the Depression. In the following years, however, partial recovery of industrial activity enabled the banks gradually to liquidate some of their frozen assets; and finally the stock exchange revival permitted several industrial companies to pay off debts by marketing long-term capital issues. The banking crisis, therefore, has not played havoc here as much as in other countries.

But also, here, plans for establishing a mortgage bank for the industries of Finland had already been maturing for some time. In the spring of 1924, these plans took more definite shape when during negotiations between the Bank of Finland, the large Joint Stock banks and leaders of industry, the moment was held to be propitious for establishing such a bank, and obtaining capital on reasonable terms from abroad. On the part of the Government the matter was considered of such important public interest that on May 26, the Government laid a proposal before the Diet for a State guarantee of a foreign loan not exceeding the equivalent of 550 million Finnish marks, which was approved on May 30, 1924.

A day after the passing by the Government of the statutes of the Suomen Teollisuus-Hypoteekkipankki O.Y. *Industri-Hypoteeksbanken* A.B. Helsingfors on June 5th, the share capital of 50 million Finnish marks had been paid up, in accordance with the scheme drawn up for the working of the bank; 80 per cent, Series "A", of the shares had been taken over by the founders, A.B. Nordiska Föroningsbanken, Kansallis-Osako-Pankki and Helsingfors Aktiebank, while the remainder, 20 per cent, the "B" Series of shares, was to be taken over by the industrial enterprises receiving loans from the bank.

The *Industrial Mortgage Bank of Finland Ltd.* has the object of supplying the long-term credit requirements of Finnish industry by granting amortization loans to industrial undertakings on mortgage of real estate, up to 50 per cent of the value and for a period of amortization not exceeding 25 years.

When valuing the property not only its value as such shall be considered, but also the security which the undertaking represents by its remunerativeness in regard to payment of interest and amortization.

The borrower must, in addition to the mortgage deed for the nominal value of the loan, deliver a separate interest-bearing undertaking for an amount equal to 5 per cent of the nominal amount of the loan. Should the accounts of the bank for any year show a loss which cannot be covered in the first instance by unappropriated profits and reserves, the bank is entitled, for the deficit, to have recourse to the undertakings delivered to the bank by the borrower, the required amount being divided among all the borrowers in proportion to the amount of loans outstanding at the time. The losses which the borrowers may thus have to make good shall be refunded to them out of the next year's profits.

No single loan may exceed 15 per cent of the total borrowing of the bank.

The bank is providing capital by issuing interest-bearing bonds, up to a maximum of ten times the amount of the share capital and reserve fund of the bank.

The bank is entitled over and above this to take up short-term credit not exceeding double the amount of the bank's own funds, provided the security for the credit does not consist of the bank's own bonds.

Should bond loans be contracted in a foreign currency, the corresponding lending must be arranged in such a way that the bank does not run any risks in regard to the rate of exchange. Similarly, should bonds be issued at a discount, the difference will be taken into consideration in determining the annuities for loans issued against such bonds.

Should the State undertake to guarantee bond loans taken up abroad, the Minister of Finance appoints one of the seven members of the Board of Directors, four members being elected by the holders of "A" Shares (*i.e.* the banks), and two by the holders of "B" Shares (*i.e.* industry).

The bank, in course of its operations, has so far contracted two bond loans abroad. At the beginning of July 1924 an American consortium headed by Messrs. Lee, Higginson & Co., Boston, granted the bank a 7 per cent bond loan of 12 million dollars. The debt undertakings were to be made out in dollars, to bear 7½ per cent interest and to be amortized by equal semi-annual payments over 20 years, reckoning from July 1, 1924.

The bank received 105 requests for loans to a total amount equivalent to 560,255,000 Finnish marks. In dealing with these requests during October-December, 62 were refused and 27 amortization loans totalling \$ 9,768,887 were granted, equivalent to Fmk. 387,824,814. Of this sum \$ 6,543,761 were taken up during the year, equivalent to Fmk. 259,787,311·70. At the end of the year, therefore, there remained 16 requests undealt with for Fmk. 130,750,186 against available funds of only Fmk. 76,665,186. Further 18 loans were issued in 1925.

The loans granted represent on an average 35·6 per cent of the assessed value—Fmk. 1,060,678,701·25—of the mortgaged securities.

In 1930 the bank was again able to grant amortization loans to Finnish industry out of a new 6 per cent bond loan of £ 2,000,000 to be redeemable by yearly instalments up to April 15, 1935. 128 applications were received for a total of Fmk. 938,273,150, but only 28 loans were granted with a total of £ 2,007,500.

The contract for this bond loan was concluded on April 15, 1930, between the bank, the Government of Finland as guarantor for the loan, and a syndicate composed of Hambros Bank, Ltd., London; J. Henry Schroder & Co., London; Mendelssohn & Co., Amsterdam;

Nederlandsche Handel-Maatschappij, N.V., Amsterdam; Stockholms Enskilda Bank, Stockholm; the Bank of Finland, A.B. Nordiska Föreningsbanken, Kansallis-Osake-Pankki and Helsingfors Aktiebank.

The proceeds of the bond loan were to be employed for amortization loans to industrial concerns in Finland against a first or second mortgage on their real estate.

The same terms of amortization was fixed as for the bond loan, also the capital rebate, while the yearly instalments were to be paid every six months at the rate of 3.995 per cent of the nominal amount of the loan, equivalent to an annual rate of interest of 6.2 per cent. The mortgage deed and the excess guarantee of 5 per cent were made out in sterling.

On the basis of a clause in the agreement of July 7, 1924, regarding the bond loan for \$ 12,000,000, the Board gave notice of the redemption as from July 1, 1924, of the whole outstanding amount of the loan, totalling \$ 6,300,000. The necessary funds were obtained partly by some of the debtors of the Mortgage Bank repaying their loans and partly by the issue of a new 6 per cent bond loan of Fmk. 200,000,000 for 5 years. This loan, to which the Government transferred the State guarantee granted on the dollar loan, was underwritten by a syndicate consisting of A.B. Nordiska Föreningsbanken, Kansallis-Osake-Pankki and Helsingfors Aktiebank.

In 1935 the Board studied the possibility of issuing new bond loans for further mortgage loans, but decided for the present only to use those funds (approximately Fmk. 50,000,000), for loans that had hitherto been on deposit in Finnish banks. These mortgage loans were allotted in 1936 in amounts not exceeding Fmk. 5,000,000, and totalling Fmk. 47,500,000 to 11 industrial undertakings at 5½ per cent interest with a redemption period of 20 years.

The Bank were never compelled to protect its rights at any forced auction or resort to any other legal measures for enforcing its claims.

Since 1936 there were no opportunities of disposing of further mortgage loans on sound industrial undertakings and consequently available funds were employed for purchasing either the bank's own bonds or Government and industrial bonds, the yield of which, however, is lower than that of mortgage loans.

## (9) FRANCE

The supply of credit to industry was a well-organized banking service in pre-war (1914) France. The *Etablissements de Crédit*, like the English deposit banks, refrained from investment business, with the possible exception of the "*Banques régionales*," which in some cases resembled the German "mixed banks" in their closer relation to industry.

But on the whole, deposit banks in France were more helpful to industry than their English confrères, in that they gave liberal discount on bills, which is not so popular in England. Moreover, this connection with industry was a direct one, and not through bill-brokers, as is customary in England.

The actual capital credit needs of industry were catered for by the so-called "*banques d'affaires*," the first of which, the *Credit mobilier*, was established in 1852 by *Pereira Frères*, when the existing credit organization was unable to meet the requirements of the rapidly expanding French industry. These banks operated with three kinds of capital: with own capital used for investments; with capital obtained by the issue of long-term debentures for investment in debenture loans and participations (the idea of debenture substitution seems to have originated here) and by short-term bonds, the proceeds of which went for ordinary advances and discounts.

<sup>2</sup> These *banques d'affaires* were staffed with a research department of engineers and economists who kept informed on the economic situation as concerning their subsidiaries and judged upon propositions submitted to them, and, should it be necessary, proceeded with the forming of a *Société d'Études*, before embarking on a new venture. These banks, either alone or in syndicates, undertook underwriting and issue business, sometimes held an issue and controlled the new enterprise, and sold the shares at a premium later, usually retaining the profitable Founder Shares. Investments, therefore, could be temporary or permanent, the latter often with a view of controlling not only one undertaking, but a whole branch of industry by amalgamation and rationalization. Such a permanent investment might be handed over to a holding company under their control, which relieved them from direct supervision.

These banks carried on also regular banking business, but were more liberal in their credit grants, owing to the more intimate knowledge of their clients. They had only a few, but large debit accounts, as they did all the banking operations for their subsidiaries. As a rule, the profits out of the regular banking operations covered all administrative expenses.

This smooth working of the system changed somewhat after the war. The deposit banks, which partly against their program, had to handle some long-term business, definitely turned away from such operations, while the banques d'affaires enlarged their regular banking business and became practically "mixed banks." They continued and increased their industrial business, but not in pace with the quickly moving industrial developments (which actually was felt already before the war).

Fear of monetary disturbances and frequent appeals of the State and public corporations to the capital market have kept interest rates high. Moreover, it has been difficult for the private banks to secure large volumes of time deposits which could be used to extend medium-term credits, because public and semi-public savings institutions offered on sight deposits rates of interest at least equivalent to those which private institutions could offer only on time deposits. This situation called for special measures, which were taken in collaboration by all the parties concerned.

Government, in collaboration with some leading deposit banks, established in 1920 the *Banque Nationale Française du Commerce Extérieur* for long-term export credits.

Of particular interest, however, are two institutions for the supply of credit to industry on medium and long-term, known as U.C.I.N.Å. and C.A.L.I.F.

The first, *Union pour Credit à l'Industrie Nationale*, was founded in 1919 with a capital of 25 million francs, doubled in 1928, by the Credit Lyonnais and the Comptoir Nationale d'Escompte, in order to supply such credits for which there was an urgent need, which deposit banks, however, could not grant without deviating from their rules of liquidity. The operations of this bank, which in ten years of its existence has reached almost a milliard, include loans for construction and purchase of equipment, advances on open accounts, on long-term orders and contracts and all other kinds of credits in every amount, from 3 months to 5 years or, in exceptional cases even more, on direct or collateral guarantees.

The resources of the Union, in addition to capital and reserves are obtained by rediscount with the parent concerns of their short-term assets, by deposits for medium and long-terms, and by the issue of "billets à ordre," a kind of deposit certificate repayable in semi-annual instalments.

Similar are the operations of the very active *Société de Crédit à l'Industrie Française*, which was established in 1928, with a capital of 100 millions by a syndicate under the leadership of the *Société Générale*, with the participation of the *Union des Mines* (which is referred to later on) and the National City Bank of New York (France). This institution too issues bonds and debentures according to its requirements.

The *Omnium Financier pour l'Industrie Nationale* (O.F.I.N.A.) created in 1929 by the founders of U.C.I.N.A. for issuing debentures redeemable between 1935-40 for long-term loans to industries unable to raise debenture loans themselves is a most typical case of debenture substitution.

The example of the above-mentioned companies soon became popular and several others were set up subsequently. In 1929, the *Crédit Industriel et Commercial*, in conjunction with its affiliated banking companies, each with its own regional sphere, established the *Union des Banques Régionales* (capital 40 million francs), whose objects were "All medium and long-term credit operations and allied operations." The *Crédit du Nord* set up the *Union Bancaire du Nord* as its affiliate for industrial credit. The *Union Industrielle de Crédit pour la Reconstruction* founded in 1921 and having as objects the "mobilization of long-term credits for the reconstruction of the devastated regions and all operations relative to the resumption or extension of the economic activity of the country," has on its board representatives both of several joint-stock and of business banks.

These "affiliates" for supplying medium-term credit to industry are in fact merely branches of the big deposit banks, on whose funds they largely rely. Their rôle is restricted to the actual negotiations with their clients in respect of medium-term loans, all administrative work being done by the respective deposit bank.

The total assets of the leading institutions in 1938 (except comptes d'ordre) were :—

U.C.I.N.A	... ..	146,000,000	francs.
C.A.L.I.F	... ..	168,000,000	..
Union de banques re- gionales	... ..	142,000,000	..

Of special importance were also the loans of the *Crédit National* (pour faciliter la réparation des dommages causés par la guerre) an institution created in 1919 with a capital of 100 millions, for war compensation and reconstruction finance purposes, which in 1930 was authorized to grant loans up to 5 million francs in any one case for periods of 3-10 years to French manufacturers in France, the French colonies or mandated territories, to be secured by a first mortgage, or joint and several guarantees or securities, and as an additional security, the goodwill of the undertaking. In the course of the past years, its activity has been extended to cover all types of industrial and commercial enterprise. The *Crédit National* is a private company, constituted by banks and leading industrial groups, but with the management appointed by the Government and the administration controlled by the Minister of Finance. This mixed character assures the bank of considerable resources; on the one hand, advances from the State and issue of bonds guaranteed by it; on the other hand, issue of non-guaranteed bonds which can be readily placed on account of the semi-public character of the institution.

The bank extends loans for periods not exceeding ten years and the aggregate of credits granted to any one undertaking may not exceed 10 million francs (15 millions under a proposal recently introduced in Parliament). Loans are granted, at present, at the rate of 7-15 per cent on the basis of specified security up to a maximum amount of 50 per cent on the value of the security. The volume of loans outstanding at the end of 1938 was 1,500 million francs, of which 400 millions consisted of export credits based on State credit insurance.

The initiative of industry, i.e. of various industrial groups has led to the establishment of special banks for the electrical, cotton and sugar industry. The most typical of these organizations is the *Union des Mines* founded by the coal industry in 1923 with a capital of 270 million francs, which in 1932 was reduced to 135 millions. This bank like the banques d'affaires, accepts only fixed deposits. Its objects are "to carry on in France or abroad all financial, commercial and industrial affairs." It is closely identified with the mining, metallurgical and

their allied industries. In its discount and credit operations it works mainly with the railway companies, great mining and metallurgical companies, but is interested also in potash, phosphate and other chemical, electricity, etc., concerns, and has also considerable holding in banks.

While these Companies cater mainly the larger undertakings assistance was given by the State also for the credit supply to small enterprises by setting up in 1917 a network of *Banques Populaires*, co-operative societies for the supply of short-term credits. These *banques populaires* are also the channels through which medium-term credit is supplied by the *Credit Artisanat* out of funds made available in 1923 by the State and the Banque de France, for 5 years for modernization or expansion of plant, etc., repayable in annual instalments and to be guaranteed by the Co-operative Society. These credits are to be granted to independent small producers who in addition to members of their family do not employ more than two workers and one apprentice.

The *Caisse des dépôts et consignations*, an organization which administers the resources of the savings banks and social insurance funds, and the most important unit of the French money and capital market, has since 1931 played a rôle of increasing importance in making available resources for medium-term credit to industry. In that year it was authorised to accept *es pension* bills created by the commercial banks to represent advances, ranging from six months to five years, granted to their industrial clients. In 1938, the rate of interest for such bills accepted *es pension* varied from 4 per cent for six-month bills to 5 per cent for bills payable in four or five years. The total volume of such medium-term credit under rediscount at the Caisse amounted at the end of 1938 to 488 million francs.

Mention should also be made of the *Caisse Nationale du Crédit Agricole*, a Government Institute which grants 3-4 years medium-term loans and long-term loans for 15 and even 25 years, through co-operative societies also to rural industries.

The recent "Blum experiments" included also a scheme of temporary assistance to industry which was introduced by an Act of August 19, 1936, supplemented by a Decree of August 26. In reality the scope of this scheme goes beyond industry, since it applies equally to commercial and agricultural undertakings. A Central Loan Committee was set up to examine the files submitted to it by 160 departmental committees and decide whether to grant or refuse the loans requested. These loans were divided into two groups: those justified by an

increase in social charges and those required for export purposes. Applications for the latter had to be submitted before October 15 and for the former before November 30. (*cf.* Intern. Labour Review, 1937, No. 2; F. Maurette, *A Year of Experiment in France*).

The great majority of the applications and those for the largest sums were justified by an increase in social charges: 15,985 applications, representing 1,278 million francs, of which 14,053 applications, or 386.5 millions, were for sums of less than 100,000 francs, and 1,932 applications, representing 891.5 millions, for larger sums. The Committee granted 13,006 of these requests (11,160 for less than 100,000 francs and 1,846 for larger sums), making a total of 1,075 million francs (319.5 and 755.5 millions respectively). In other words, 81.5 per cent of the applications and 83 per cent of the sums requested were granted.

The applications for export purposes came from 1,765 exporters, and amounted to 195 million francs; 1,553 applications, representing a total sum of 135 millions, were granted, or 92 per cent of the applications and 70 per cent of the amounts asked for.

There can be little doubt that the scheme was a success. It is true that some industrialists and traders had a very natural, although in the circumstances unjustified, objection to applying for assistance when they were required to explain their financial situation to the appropriate committee, on which the public authorities were represented. Nevertheless, the 1,200 million francs that were distributed obviously enabled many businesses to keep open during the period of adaptation to the new social conditions. It may be said that the distribution of this assistance was carried out in a very generous spirit; it would appear to have been refused only to undertakings whose position was already so hopeless that it was practically certain that if a loan were granted the money would simply be swallowed up, without profit for the borrower or the lender.

In a decree of August 25, 1937, the French Government offered certain advantages to local industrial undertakings for enlarging or modernizing their plants. On October 31, 1937, a decree made available this support as a refund of interest on credits taken for the modernization of plants. Such refund is granted only to undertakings in hands of French citizens. Applications are examined by a special commission.

It thus appears that abundant credit facilities are provided in France.

The joint-stock and other commercial banks undertake normally the ordinary commercial credits, or that temporary accommodation for current needs, which is classed as short-term, and is in principle accorded for three months, but is frequently renewable twice, even thrice or more, up to 18 months.

Medium-term credit, at times somewhat elastic in its interpretation, but normally arranged for from two to five years, is deemed to relate to accommodation for needs of a non-recurrent or quasi-permanent character, from which rapid direct returns are not to be anticipated (e.g. the acquisition of rights, improvement of plant, purchase of factory requisites) or from which only indirect monetary returns are assumed (e.g. building of workers' dwellings, or other welfare creations). The great French commercial banks to a very limited degree, and the lesser to a certain degree, but especially the "business" banks (*banques d'affaires*) both large and small, and certain specialised institutions, are purveyors of this credit. Many special institutions exist for long-term credit. The bounds between the latter and medium-term are not always easy to determine: guarantees and liens are similar, first charges, contractual assignments of fixed percentages of earnings, share of debenture participations, and kindred security independent of trading or other vicissitudes being required. And the partitions between medium and short-term credit may also be somewhat slender, where triple extensions of bills, or revolving credits, or standing banking facilities (*facilités de caisse*), are generously accorded on sufficient grounds to customers reputed solvent.

The funds for such medium and long-term credits are made easily available by the existence of the Bond issue system, which enjoys great popularity in France. These bonds correspond roughly to debentures which are on sale in French banks to the saving public; their popularity is largely due to the fixed rate of interest and to the priority of charge on assets.

#### (10) GERMANY

Attention was drawn in the introduction to the "typical German" way of financing industries by short-term credits in anticipation of future capital issues. The so-called "Anlage Banken" such as the Schaaflhausensche Bankverein, and the Bank für Handel and Industrie,

institutions similar to the French *Credit Mobilier*, were the first to develop this form of credit. These banks worked in the beginning with their own capital until about 1870, when they started to accept deposits. There was little difficulty at that time for industry to obtain the necessary credits, with the consequence that almost half of the working capital, employed by industrial concerns was "outside" money.

This situation changed considerably after the War when the German banks had lost  $\frac{1}{3}$  of their own capital and 81 per cent of their pre-war deposits. Banks then became, as we shall see, mainly intermediaries between foreign capital and industry. Bank credits were available only on short-terms and at the expensive current account rate.

During the inflation industries succeeded to free themselves from the influence of banks, and even acquired control over certain banks, or established their own house or branch banks.

Different was the case of the small manufacturer who had previously been financed largely out of his own profits, by investments given by family members or by means of partnerships with capitalists. The destruction of capital by war and inflation left him entirely without credit resources all the more so as it proved easier to secure and administer loans to limited companies. The more a product moves from mass production to refined production, combination and the formation of companies becomes more difficult, and, thus, important industries were neglected.

It was then that bankers and economists became conscious of a gap in the German credit system which actually had been felt to a certain extent before the War. It had been, in fact, for some time, the subject of a discussion which was started by the proposals of *Felix Hecht* in 1908 for a central institute for "debenture substitution." Such an institute would grant loans secured by debentures to smaller enterprises which had no access to the capital market, and would issue its own debentures instead, which should be introduced on the stock exchange. Such industrial debentures should be distinguished from mortgage bonds by higher publicity, shorter term (10-20 years) and higher interest, and thus form an attractive investment. Loans should be granted for 10-20 year terms, repayable in annual instalments. Credits should be granted only to existing and profitable enterprises, and should be spread over many branches for reducing the risk. The institute would need a "suitable commercial and technical examination staff," well acquainted with industrial conditions and the competition situation. There should be no joint liability of the creditors.

This proposal by Hecht was enlarged by *Georg Herman Loewy* in 1909, who saw in it a kind of central institution, to which applications should be submitted by the applicants' regular bankers, who should also guarantee the eventual loan to the central institution. *Schulze-Kiesow* added in 1928 that only the banks which grant the regular current account credit should grant the long-term credit and proposed a debenture issue by the central institution. The main work would remain with the regular banks.

Similar was the proposal by *Tschierschky* in 1909, whose central institution was to be established by credit co-operatives formed by the various branches of industry, jointly with Government and the big banks for the issue of debentures. The credit co-operatives should be largely based on the existing cartel organizations which know their own members best. Such an institution would have only small expenses and could be cheaper than that proposed by Hecht.

Somewhat different was the suggestion of *Dr. H. Breyman* in 1925 for an institution acting as intermediary between foreign capital and medium and small industries. The loans must be well secured and should not exceed the amount obtainable in public auction. Breyman's plan found actual realization in the so-called "Industrieschaften." The necessity of State assistance to such Industrieschaften was pointed out by *Beier-Hirschberg* in 1926.

Investment Trusts for industry, issuing gilt-edged (Trustee) securities were the subject of a proposal by *H. Ritterskrusen* in 1929, while others, as for instance *von Schröder*, rejected the idea of special institution and preferred branches of big banks or Regional Banks to fill the gap which had arisen by the gradual disappearance of the independent private banker.

A different line was followed by *Ernst Sonntag* who in 1909 tried to prove that the Mortgage Bank Law did not exclude industrial loans, but considered only objects of a secured earning capacity eligible for mortgage loans.

(1) *Industrial Credit of Mortgage Banks.*—The view, expounded by Sonntag, had been applied in practice first by the so-called "mixed mortgage banks" (i.e. banks carrying on both commercial and mortgage banking activities) for some time, and since 1920 also by

some of the "pure" mortgage banks. This fact, however, was rarely admitted, and loans of this kind were usually granted only on a guarantee of local authorities in form of communal loans.

During the years 1926-1930, however, several of the mixed banks, particularly in Bavaria, referred in their reports to their duty to help small industrial concerns which have no access to the capital market. It appears that this step was prompted largely by the fear of competition on part of the then arising *Industrieschaften*.

Loans by mortgage banks were usually granted only to the extent that land and building were suitable for housing purposes.

The total lending of German mortgage banks to industry was estimated by K. E. Mössner, (*Das Deutsche Bodenkreditsystem*, Berlin, 1934) :-

Per 31.12.31	Rm.	527,500,000	or	8.2	per cent of all loans
31.12.32	"	509,900,000	"	8.2	" "
31.12.33	"	526,700,000	"	8.2	" "

These figures, however, do not include those mortgages on industrial property which were registered only as urban mortgages. They amounted to 425 millions Rm. in November 1934. Altogether about 20 per cent of the mortgage loans were, according to Kampmann, actually industrial credits.\*

As regular mortgage banks can lend on industrial property only to the extent the property can easily be converted into dwellings, this credit source is a not satisfactory one.

(2) For this reason particular interest was evoked by the few attempts to create *Industrieschaften*, the first of which, the *Sächsische Landespfandbriefanstalt*, was established by the State under the Law of July 20, 1925, with a capital of one million marks, for the purpose of promoting mortgage loans to industry, trade and commerce.

The administration of the institution was in the hands of the Saxonian State Bank, in order to avoid expenses.

\* The total industrial indebtedness (Mill. Rm.) in Germany was in :-

	1932-33	1933-34
Long-term debts... ..	2,220	1,928
Short-term debts... ..	5,013	4,774
Bank loans ... ..	1,448	1,250

Out of the 12 members of the Board, which was presided over by a State Commissioner, 3 were appointed by the State, 5 nominated by the five regional advisory committees, and 4 appointed out of the groups of borrowers by the Minister of Economics on proposal of the Chamber of Commerce. The State Commissioner has to control the cover of the debentures, while the Board has to supervise the management. Final decisions, however, rest with the Minister of Finance.

The 5 regional advisory committees to consider applications consist of a delegate each of the Chamber of Commerce, and Trade and Industry, and three other members one of whom representing the borrowers.

Loans over Rm. 100,000 had to be approved by the State Commissioner, over Rm. 200,000 by the Minister of Finance.

The institution was authorized to issue fix-term bearer debentures for mortgage loans up to 50 million Rm., which amount was increased to 75 millions in February 1928. Debentures issued in a foreign currency had to be covered by loans on equal terms and interest.

Loans could be issued from Rm. 3,000—Rm. 500,000 and were not to exceed 30 per cent of the value of the real estate property (which equalled on the average 15.8 per cent of the own capital of the borrowers). If such property could be adapted also for dwellings purposes, loans not exceeding Rm. 20,000 could be granted up to 50 per cent of the value. Machines are excluded as security, except in cases where they are modern and typical for the branch of industry, and where the business is good, they may be included at a low evaluation.

Enterprises on hired land were excluded from loans.

Borrowers had to accept a joint liability of 10 per cent of the amount of the loan. The loans were issued, according to the borrowers choice, in cash or in debentures, for 20 years, payable in semi-annual instalments, including capital, interest and a "risk surtax" of  $\frac{1}{4}$  per cent. Loans could not be recalled if the borrower complied with all conditions, while he could repay part or the whole loan at three months' notice.

The debentures were secured: (1) by the mortgaged object; (2) by the income of the risk surtax; (3) the reserves; (4) the joint liability; (5) the share capital; and (6) the State.

No loans were contracted or issued after 1930. Before that date eight debenture loans were contracted with a total of 79 million marks, including three dollar loans totalling 11 million dollars at 6 per cent, 6 $\frac{1}{2}$  per cent and 7 per cent, and five gold mark loans at 8 per cent.

The interest burden, originally between 8 and 9 per cent, was reduced to a large part of borrowers to  $4\frac{1}{2}$  per cent (plus  $\frac{1}{2}$  risk surtax), under a conversion in 1935.

Altogether 700 loans were granted, out of about 1,500 applications, not considering a number of supplementary and conversion loans. In about 150 cases foreclosures were required to recover the debt.

The loans were divided approximately in the following proportions :

	Rm.	per cent
Up to	20,000	35
From 20,000-	50,000	28
.. 50,000-100,000		18
over	100,000	19

(3) The *Pfälzische Wirtschaftsbank*, Ludwigshafen, was established a year later, in 1926, by co-operation of the Federation of Manufacturers in the Pfalz, the Bavarian State Bank, the County Council of the Pfalz and various municipalities, as a public utility company for borrowing money and lending it to medium and small size industrial enterprises in loans on real property, as well as for participation in industrial ventures.

The capital of Rm. 2,000,000 was equally divided into A and B shares, of which the A shares were held by the authorities and some private banks, while the B shares were to be bought by the borrowers, at a ratio of 7 per cent of their loans.

The Bank was administered by a board and management, as well as by a permanent committee elected by the board for assisting the management in their work. Another committee, the loan (advisory) committee, had to approve all loans exceeding Rm. 20,000.

Like the Saxonian institutions, also the *Pfälzische Wirtschaftsbank* has a joint administration with another institution, viz. the *Pfälzische Hypothekenbank*.

Though authorized to borrow up to 20 millions, the bank did not succeed in placing debentures on the local or foreign market owing to the refusal of the State to guarantee such loans, the conditions of which were considered too burdensome; but the bank obtained two medium-termed loans from the Reichspost, one of 15 millions in 1927, and one of 3 millions a year later, under the guarantee of the Bavarian State.

The charges for these loans, originally at  $7\frac{1}{2}$  per cent interest together with the risk surtax of  $\frac{1}{2}$  per cent, and administration commission of  $\frac{1}{2}$  per cent, totalling  $8\frac{1}{2}$  per cent, were later reduced to  $4\frac{1}{2}$  per cent

(5- $\frac{1}{2}$  per cent). A one-time commission of 2 $\frac{1}{2}$  per cent was deducted from all loans in the beginning. Loans were granted, however, only for 2.5 years and had to be extended.

Until 1930 altogether 197 loans were issued to 178 enterprises, amounting to Rm. 17,992,000. Since then no new loans were issued. (In about 80 cases foreclosures were required to liquidate the loans.

The loans were divided as follows:—

	Rm.	Rm.
54 up to	20,000	751,023
59 from	20,000-50,000	2,051,900
45 from	50,000-100,000	3,125,534
39 over	100,000	12,059,449
197		17,991,906

The bank which usually paid a dividend of 4.5 per cent was liquidated after the full repayment of the loans.

(4) A third attempt to establish an *Industrieschaft* was made in 1926 by the *Kreditgenossenschaft der Mitteldeutschen Industrie, G.m.b.H.*, Weimar, but being a private co-operative undertaking without public support, it failed to raise debenture loans locally or abroad. It finally succeeded in obtaining from the *Thüringische Landeshypothekbank*, a public institution, loans on a 10 per cent joint liability of its members, to be secured by Goldmark mortgages. For every Rm. 5,000 or less, the borrower had to acquire a share of Rm. 100 with a liability of Rm. 100. The borrowers had also to agree to the audit and supervision by the *Thüringische Landes Treuhand and Revisions A.G.*

It rested within the Manager's discretion to fix the amount of the loan also in proportion to the security.

Of 284 applications for Rm. 21,437,500, 104 loans were granted totalling Rm. 7,448,500.

The co-operative reached in 1929 its maximum membership of 120.

(5) Mention should be made also of the *Zentralbank Deutscher Industrie A.G.*, which was registered in 1928 by the International German Trust Co., New York, and a number of German banks under the leadership of *Gebrüder Arnhold, Dresden*.

Of the registered share capital of 17.5 million Rm., 10 millions were to be issued as registered shares, with a 25 per cent payment thereon, the rest as fully paid bearer shares. Of the registered shares 7.85 millions were to be allocated to the New York company, and 2.15 millions to some public banks. The bearer shares were to be taken over by private banks.

It was foreseen to issue loans from Rm. 50,000-Rm. 4,000,000 up to 30 per cent on the value of the security, machinery included. The borrowers would accept a 10 per cent liability which would decrease proportionately with the annual repayments.

Applications for loans should have been submitted by local banks and approved by local committees, before being sent to the Central Bank.

The bank, which owing to the crisis in 1929, did not start operations, would thus have offered an interesting possibility of co-operation between banks and the central institution which resembles somewhat the *Industrieschaft* model.

(6) *County Banks*.—The idea of the *Industrieschaften*, which, as we saw, was not too successful, was not endorsed by the Prussian Parliament, when demands of the industry to this end were considered, but it was decided that the great number of State, County and District banks of a public character should be authorized to grant also industrial mortgage credits. But only a small number of these banks made use of this authorization. In the main, the activities in favour of industry remained limited to the collective loan of the *Deutsche Landesbankenzentrale A.G.*, the proceeds of which were issued through twelve associated provincial banks as credits to medium and small size undertakings. This loan was contracted in autumn 1927 through Lee, Higginson & Co., Boston, to an amount of 10 million dollars at 6 per cent, for credits up to 30 per cent of the value of the real property. The loan was paid out to the borrowers at 90.2 per cent, at a rate of 6 per cent plus  $\frac{1}{4}$  per cent commission and  $\frac{1}{4}$  per cent risk surtax, and for a term of 24 years. The actual cost of the loan thus was about 8 per cent. The borrowers were entitled to repay the loan at par, beginning from 1932. Owing to the low quotation of the debentures this was done to a large extent and by the beginning of 1935 about 20 per cent of the loan was repaid.

Each provincial bank is liable for the loan according to their share in it. They have in turn the right to control the business of their borrowers. All mortgage deeds are deposited with the central institution as trustee.

Out of the loan, 773 credits were granted with a maximum of Rm. 500,000 and an average of about Rm. 60,000. The loans were largely used for the consolidation of short-term liabilities (50 per cent), for capital investments (25 per cent) and for working capital (25 per cent).

In addition to these loans only those of the *Landesbank der Provinz Ostpreussen* are worth mentioning, which depend largely on the debenture market.

(7) To some extent also the *Savings Banks* have granted short and long-term loans to small industrial undertakings. Bavarian savings banks evidently considered it their duty to grant credits to "industrial undertakings with less than 20 workers." Such credits, naturally, must be kept at a small proportion within their credit portfolio.

Figures available for 1930 and 1931 show that such short and long-term credits did amount to no more than 9.4 per cent and 3.3 per cent respectively in the case of the Bavarian and to 17.9 per cent and 12.3 per cent in the case of the Silesian savings banks.

(8) *The debenture loans of private banks.*—(a) In the beginning of 1927, the *Deutsche Bank* contracted through Dillon, Read & Co. a five-year loan of 25 million dollars. There were no special guarantees demanded. The receipt alone was basis for the bond issue and no control rights were given to the lender. The loan was issued at 99½ per cent at 6 per cent. While the bank thus paid about 6.9 per cent for the loan, credits were issued at 7.8-8.4 per cent. Altogether 172 loans were issued averaging Rm. 625,000, and including \$ 21,672,489 secured and \$ 3,196,558 unsecured credits. The loans have partly been prolonged.

(b) In October 1927, the *Commerz und Privat Bank* followed this example and contracted with the Chase National Bank a ten-year loan of 20 million dollars, issued at 94½ per cent, at a rate of interest of 5½ per cent, which was the lowest rate of all German loans contracted in U.S.A. The actual cost to the borrower between 8½ and 9½ per cent was still cheaper than the then prevailing current account rates. The bank was entitled to repay the loan or part thereof, but at least 4 million dollars, after 30 days' notice. By the end of 1934, 12 million dollars were repaid.

While all these attempts towards a solution of the industrial credit problem date before the Great Depression, two institutions were established in order to assist in the liquidation of credits frozen in the depression, viz. the:—

(9) *Deutsches Industrie Finanzierungs Institut A.G.*, which was established by Government, conjointly with banks, in 1932 with a capital of 35 million Rm., in order to take over from the banks up to ten times their holdings in the Institution long-term loans and negotiable securities of sound undertakings for gradual liquidation which, if disposed too rapidly on the stock market, would lead to unnecessary losses. Advances thereon were granted up to 75 per cent of their nominal value.

(10) *Tilgungsbasse für Gewerbliche Kredite, A.G.*, was established at the same time to take over from small and medium-sized banks frozen debts to the extent of 150 million Rm., otherwise to be written off, for a gradual liquidation over 25 years.

It was thus intended to save German banks from the dangerous consequences of "mixed" banking.

Since 1931 another institution has come to the fore, which within a few years, has become the central institution for industrial credit in Germany.

The *Bank für Deutsche Industrie Obligationen*, originally established in 1924 with a capital of ten million Goldmarks, by a number of large industrial concerns and banks to serve as a medium between the creditors under the Dawes Agreement and the German industries, subject to Reparation payments, it became available for other purposes when the Young plan replaced the Dawes Agreement. It was then suggested by German industrialists to keep the institution alive, and the *Industrie Bank Gesetz* of March 31, 1931, authorised the bank to continue to collect the special levy on industry under the Dawes scheme until 1936, with an exemption for smaller enterprises. This levy should yield 510 millions Rm., of which 415 millions should be used for a consolidation of agricultural indebtedness in Eastern Germany, and 95 millions for "promoting the productivity of the economy by means of credits to industry, particularly to small and medium-size undertakings."

The capital of the bank, increased in 1931 to Rm. 50,000,000, has since been doubled out of the collections, while free reserves of 484 millions were accumulated by March 31, 1937. The bank may issue debentures to be secured on mortgage loans up to six times its share capital.

Credits are granted from Rm. 500-Rm. 300,000; this limit was extended in 1937 to Rm. 500,000 thus increasing the average loan from Rm. 26,400 to Rm. 29,000 (March 31, 1937). Loans as a rule should be secured by mortgages; in exceptional cases also other securities may be accepted. Such credits, however, together with short-term credits to industry should not exceed 50 million Rm. in any one year.

When considering an application, attention is given not only to real property and equipment, offered as security but also the goodwill and the prospects of the concern and the profitability, as well as the personal qualities and experience of the manufacturer. If the latter are not satisfactory, the loan will be rejected even if ample securities are available.

Credits are issued at the rate of 98 per cent. The rate of interest, originally 6 per cent, has been reduced to 5½ per cent in 1933, and to 5 per cent later on. An annual commission is charged at the rate of ½ per cent.

The credits are usually granted for 5 years, but if properly paid during this period, there is no difficulty in renewing them. Repayments during the currency of a loan should amount to one-third in case of 5-year loans, and to one-half in case of loans exceeding 5 years.

It is an important point that applications should be received and loans are issued as far as possible in co-operation with local credit institutions.

Over 40 agreements have been concluded with a great number of banks, saving banks and central banks of credit co-operatives, and thus a wide net has been created for the activities of the Industrial Bank, covering the whole Reich. Particularly such banks and institutions have been selected which keep close contacts with middle class manufacturers. These institutions undertake the preliminary investigations and administer loans up to Rm. 15,000 afterwards as trustees of the Industrial Bank and exercise the necessary control. These banks which are compensated for their work by the ½ per cent annual commission thus unite both the long and short-term business under one administration, which so often has been advocated as the main advantage of the German "Mixed System."

Loans are often granted to convert expensive and burdensome short-term credits for working capital and for capital investments, with a special consideration of the importance to the general economy of the applicants. The credits, however, should not replace the normal bank credit, and should only supplement it.

For loans above Rm. 50,000, and in certain cases also below that amount, expert investigations are required, the expenses for which are to be borne by the applicant whether the loan will be granted or not.

The Bank which is under the supervision of Government is administered by three managers (and their substitutes). Of the 33 members of the Board, 32 are appointed by Government for 3 years, on the suggestion of various representative groups of the economy, and one by the Reichsbank management. All shares are in the hands of industry and shareholders hold their shares merely as trustees. No dividend is paid on the shares. The Bank, thus, appears to be an institution of self-help and mutual aid of industry, though not of a co-operative character.

The Bank is exempt from all land registry fees and stamp duties.

Since the inception of its work, the Bank has granted and issued the following credits :—

	Credits Approved		Credits Issued	
	No.	Millions Ems.	No.	Millions Ems.
1931-32 ... ..	331	13.5	77	6.0
1932-33 ... ..	1,036	29.9	758	24.3
1933-34 ... ..	2,343	68.5	2,068	47.5
1934-35 ... ..	1,858	48.7	2,099	49.0
1935-36 ... ..	1,364	33.9	1,495	39.2
1936-37 ... ..	827	40.9	804	37.2
1937-38 ... ..	978	63.7	893	52.4
<b>TOTAL ... ..</b>	<b>8,484</b>	<b>287.1</b>	<b>8,164</b>	<b>255.6</b>

These credits (according to their numbers) were divided approximately to :—

	1931-37	1937-38
Industry	35 per cent	57 per cent
Artisanate	37 "	21 "
Distribution	28 "	28 "

It is of interest to note that 77 per cent of all credits were below the average loan, Ems. 25,000, which indicates the predominance of small loans.

Arrears in payment and legal procedures against defaulting customers have been rare (about 100 cases). The permanent supervision exercised over customers has shown that in 90 per cent of all cases the loans had helped to increase production and to attain profitability.

A few years ago the Bank has acquired a controlling interest in the "Ciborg" (Commercial Investment Trust A.G.) a company for distribution finance. While in England the United Dominion Trust Ltd., a distribution finance concern, took the initiative to establish Credit for Industry Ltd., the opposite development has taken place in Germany. This fact is indicative for the different economic structure in both countries, but, also seems to show the organic connection between both activities.

Special problems were recently created by the rearmament program. At first liberal discount facilities were granted to enterprises engaged in this production.

The State in 1938 revised its mode of financing the enterprises whose products it requires or whose development is regarded as an object of public policy. No longer are the enterprises given the right to draw bills to be accepted by semi-state institutions and rediscounted at the banks with indefinite or repeated renewals. Government now finances them or leaves them to obtain their finance themselves by a directer approach to the capital market.

### (11) GREAT BRITAIN.

In probably no other country was the supply of industrial finance so well organised as in Great Britain, where a great variety of merchant bankers, financial companies, issue houses, underwriters, brokers and holding companies have elaborated a system whereby their respective functions are widely divided.

Among the merchant banks Hambro's Bank, Baring Bros. & Co., J. Henry Schroeder, N. M. Rothschild & Sons and Lazard Bros. are usually ranked as leaders. Other well-known merchant banks include Robert Benson, B. W. Blydenstein, Brown Shipley, Dawson Day & Co., Erlangers, Robert Fleming, Grindlay & Co., Guinness Mahon & Co., Helbert Wagg & Co., Higginson & Co., C. Hoare & Co., S. Japhet & Co., Kleinwort & Sons, Samuel Montagu & Co., Morgan Grenfell & Co., M. Samuel & Co., and Brown Harriman.

Financial trusts play a large part in the finance of new enterprises. Among these may be mentioned companies such as the British Shareholders Trust, Industrial Selection Trust, Anglo-Scottish Amalgamated Trust, British Pacific Trust, British Empire Trust, Gresham Trust Nelson Financial Trust, Phoenix Investment, Second Broadmount Trust, Sherwood Trust, Venture Trust, Carlton Trust, Lothbury Investment, Ocean Trust, Power Securities Corporation, and Standard Industrial Trust.

An interesting definition of the respective functions between an investment trust company and a finance company was given by the Chairman of the Venture Trust, Ltd., early in 1936. The primary function of an investment trust is to acquire and hold various investments for the sake of the interest and dividends to be derived from them, the acquisition of profit from realisations of investments being a purely incidental matter. The finance company, on the other hand, exists primarily for the purpose of dealing in investments of various

kinds, the main object being to acquire these investments and sell them again at a profit. With a finance company the interest or dividends to be obtained from the investments are a secondary consideration.

This fundamental difference between the business of an investment trust and that of a finance company naturally involves a considerable difference in what must be the basic policy of management. In the case of an investment trust, since income from interest and dividends is the primary consideration, there is no real objection to the acquisition of comparatively large blocks of the same shares or securities. Moreover, in cases where the yield is satisfactory, the question of temporary capital depreciation of the holding can be disregarded to a much greater extent. The question of subsequent ease of marketability is also comparatively minor importance.

With a finance company, however, the position is entirely different. Since the main object in this case is capital profit, the somewhat meagre income from dividend and interest being merely a secondary consideration, the portfolio must not only contain no stocks or share which are likely to slip away in market value in slack times, but must also be of an easily marketable nature and quantity.

Although they are seldom concerned with the finance of industry in Great Britain, mention should also be made, for purposes of differentiation, of the specialised finance houses which concentrate on the finance of one or a few particular types of enterprise, e.g., gold mining, plantations, etc. It is, however, interesting that a new tin mine in Pahang should have a specialised finance house catering for its needs, and would almost certainly have less difficulty in raising capital than a new engineering company in Peterborough. Some of the more important of these specialised finance houses are: Amalgamated Finance Co. (rubber and tin), British and Chinese Corporation (Chinese railways), Malayan Rubber Loan and Agency Corporation (rubber), Union Corporation (gold, other metals and general), Selection Trust (mining), Johannesburg Consolidated Investment Co. (gold and general), General Mining and Finance Corporation (gold and general), Consolidated Goldfields of South Africa (gold and general), London Tin Corporation (tin), Anglo-American Corporation of South Africa (gold and general), African and European Investment Co. (gold and general), Malayan and General Trust (tin), Java Investment Loan and Agency, Limited (plantations), Eastern Plantations Finance (plantations), Eastern International Rubber and Produce Trust (plantations), British

South Africa Co. (land, minerals, etc.), British North Borneo Co. (land), Hudson's Bay Co. (land and minerals), British Overseas and General Investment (South American utilities), and British Industries and General Investment (rubber).

Mention has already been made of the part played by provincial stockbrokers in industrial finance. The big London firms on the whole do less "nursing" (which is the important thing as far as new industries are concerned), but some "nursing" sometimes has to be done prior to an issue and it is, therefore, relevant to mention a few of the leading stockbrokers handling new issue business: Ian Anderson and Nairne; Belisha & Co.; Cazenove, Akroyds and Greenwood; Cohen, Laming, Hoare; Crews & Co.; Keith, Bayley and Rigg; Luton Clarke; Myers & Co.; Rowe and Pitman.

Most of the various types of firms to which attention has been drawn above in describing some of the financial institutions of the City, are concerned in some way or other with industrial finance in general rather than with the finance of new industries that being a particular branch with which many of them are called on to deal from time to time.

Apart from these there are a few fairly old-established industrial finance houses in the City, the chief of which is perhaps the industrial Finance and Investment Corporation, associated with the merchant banking firm of S. Japhet & Co. Other comparatively recent companies largely concerned with industrial finance are the New Trading Co. and the First British American Corporation, while O. T. Falk have at various times undertaken work of this kind. Certain of the large merchant banks also engage in industrial finance work to a limited extent, and their activities in this direction have tended to increase with the decline in the volume of bills for discounting. Very often this is done through apparently independent companies operating from a different address which, however, may in fact, be simply a back-door entrance to the merchant bank. Most of these banks have always had a substantial business in new issues, and for this and other reasons it is of the utmost importance to them to reserve their name for association only with the class of financing normally looked on as the most highly respectable.

But it appears that, well developed as the system is, certain gaps existed which have become severely felt under the pressure of structural changes of British industry in post-war days.

The reorganisation of certain branches of industry (steel, cotton) required commercial assistance which was not available from purely commercial credit sources. It was then that the Bank of England intervened by establishing in November 1929 a special company the "*Securities Management Trust*," with a capital of £ 1,000. The functions of this trust were to advise industry with regard to reorganisation and rationalisation schemes, and to provide directly or indirectly the funds for such schemes. The Trust assisted in 1930 in the rationalisation of the Lancashire Steel Trust and the Wigan Coal Corporation.

A year later the Bank of England, again in conjunction with a number of leading banks, formed the *Bankers Industrial Development Company Limited*, with a registered capital of £ 6,000,000, divided into 45 "A" shares and 15 "B" shares, each of £ 100,000, of which, however, only £ 6,000 were paid up. The "B" shares are held by the Securities Management Trust and carry three votes each, thus securing 50 per cent of the votes to the Bank of England, while the other shares are held by leading banks. Also this company is more a "*Société d'Etude*," an "*Industrial Finance Conference Board*," than a finance corporation. Its general objects may be described as being to investigate and advise on all manner of financial, industrial and economic questions, to aid in the formulation and carrying into effect of schemes and arrangements relating to the financing, developing, co-ordination, amalgamation, reconstruction or reorganisation of firms, companies and business of all kinds.

Its main function is to receive and consider schemes submitted by the basic industries of Great Britain for the purpose of their rationalisation and, provided the schemes are approved, to act as the channel through which any necessary financial assistance is forthcoming. In no way does it compete with existing banking or financial institutions, nor does it finance individual firms.

The Bankers Industrial Development Company's shareholders consist of joint stock banks, provincial banks, merchant banks and issuing houses, with a Board and Advisory Council drawn from these sources.

The following are some of the schemes which the Bankers Industrial Development Company has assisted in arranging the finance, either by public issue or by private arrangements:—

**PUBLIC ISSUES :**

Lancashire Cotton Corporation Ltd. ... ..	£ 2,000,000
National Shipbuilders Security Ltd. ... ..	£ 1,000,000

## PRIVATE ARRANGEMENTS:

Stewarts & Lloyds Ltd. Corby Scheme ... ..	£ 3,300,000
Guest Keen Beldwins Ltd. Cardiff Scheme ... ..	£ 2,032,000

Its last achievement was the establishment of the Ebbw Vale Steel and Tinplate Combine with a total cost of £ 10,000,000.

Both these companies, however, mainly aimed at facilitating the financial reconstruction and execution of large industrial schemes. They did not attempt or make possible to fill the gap, evidently existing for some time, to which the *Macmillan Report* drew attention in 1931. The ensuing discussion showed that the British financial world had suddenly become "Macmillan minded," with the result that a number of companies were established before long. The first of them was *Credit for Industry Ltd.*, established by the United Dominions Trust in March 1934, followed in June of the same year by the *Charterhouse Industrial Development Company* (capital £ 500,000) a subsidiary of the Charterhouse Investment Trust, and in July 1935 by the *Leadenhall Securities Corporation* (capital £ 250,000) owned and controlled by S. Henry Schroeder. Other companies of this type, such as the *Leasdale Investment Trust Ltd.*, and the *New Trading Company Ltd.* were established subsequently.

An interesting attempt of local self-help was the establishment in Newcastle in 1933 by the *Northern Industries Development Limited*, a small company with a capital of £ 20,000 (£ 15,000 issued), which was subscribed locally. The Company preferred to advance money on convertible debentures, although in exceptional cases they took up preference shares. Although this Company, naturally, had to operate within the narrow limits of its resources, it is an example of modern adaptation "to the traditional method adopted in the financing of British industry under which the small or medium-sized business looked to its own locality for the finance required for development rather than to the City of London" (quoted from a letter of the then Prime Minister to the Lancashire Industrial Development Council, dated March 31, 1933).

On quite a different scale is *Credit for Industry Ltd.*, which was established in 1934 with a paid-up capital of £ 250,000. The Bank of England participated in this venture with £ 150,000 in 4½ per cent £ 1 preference shares, which in 1937 it sold out at 20/6 s. to the ordinary shareholders, the United Dominions Trust Ltd. which specialises in instalment and hire-purchase finance for periods up to three years.

Credit for Industry Ltd. has as its object the supply of medium and long-term credits, from £ 100 to £ 50,000 and for periods up to 20 years, to smaller industrial concerns without a direct access to the capital market. In the first fifteen months of its existence, Credit for Industry Limited granted or approved in principle loans totalling about £ 1,250,000. Of this amount, less than £ 250,000 was actually paid out; the balance (apart from small sums awaiting settlement) was not used, because the applicant changed his mind and decided not to borrow, or because, "in a great many cases," the money was obtained from other sources, including the banks, or for other reasons not stated.

Though all applications were carefully and sympathetically considered in only a small number of cases could the application be regarded as legitimate or justifiable.

The loans outstanding by June 30, 1939, were £ 384,909, a rather disappointing result in view of the considerable efforts of the promoters of the scheme. After having used all profits of the first years for the accumulation of a reserve fund—£ 12,500 on June 30, 1939—a dividend of 2½ per cent was earned after the sixth year of the company's operations a result still out of proportion to the work involved in the administration of the company and an inadequate return on the investment.

Credit for Industry Ltd. and similar concerns are guided in their operations by the following principles:—

- (1) Advances are limited to concerns which are established, and have a satisfactory record of profits covering at least three years.
- (2) The concern must be under continuing and competent management.
- (3) The capital must be genuinely required for development purposes.
- (4) The prospects for its profitable use must be satisfactorily established.

These four conditions probably would be laid down in every case; but *Credit for Industry* adds certain negative conditions. They will not lend: (a) To finance the acquisition of additional businesses; (b) To replace existing indebtedness; (c) To exploit new patents; nor (d) To start someone in business. The terms of *Credit for Industry* run thus:—

- (1) The rate charged on the loan is usually below the rate on a preference share.

- (2) Repayment has to be made at an agreed rate over a given period.

(3) The borrower has the option to repay at any time, but C.F.I. can call the loan only if the borrower gets into financial difficulties.

(4) Security must be provided, and may be taken in the form of a mortgage or a debenture.

(5) Preliminary costs are kept at a minimum.

(6) There are no charges for investigation as distinct from valuations and the like.

Here, also, it is laid down negatively:—

(a) The facilities are intended to be complementary to ordinary banking facilities.

(b) C.F.I. does not interfere in the control of the business, and,

(c) It does not acquire shares in order to participate in profits.

These terms, as much in the negative as in the positive clauses, represent what might be called "industrial banking," which differs from ordinary banking in that respect that the advances are repayable over a long period.

A different line is taken by other institutions working in this field. The *Leadenhall Securities Corporation* which was organized "to engage in the finance of medium and small home industrial business for which the normal machinery of the London market is inappropriate," put it this way: "the Corporation does not demand an excessive return on the capital provided, but rather looks for its reward in sharing the benefits which accrue from the increased prosperity of the undertaking"; Its investments appear to take, as a rule, the form of redeemable preference shares and some common shares which are repurchased by the proprietor after four or five years; and it appears that also the *Charterhouse Industrial Development Co.* whose purpose is to provide money to small undertakings in amounts from £ 10,000 to £ 100,000 up to twenty years, besides lending the capital at a fixed rate, usually takes a share in the equity of any business they may assist, upon terms which are fair as between the parties. The differences between these various lines of approach indicate the experimental nature of this branch of the banking business.\*

\* Another type of industrial credit was foreseen in 1935 by Bowmaker Ltd., who also control the Banking Facilities Trust Ltd., both of whom engage in instalment credit finance. The scheme foresees discounts of "Capital locked up in book debts," a business which is highly developed in U.S.A.

The problem of finance for small industries came to the fore again more recently in connection with the particular problem of the "Special Areas." In his first two reports, July 1935 and February 1936, the Commissioner of these Areas had to point out that credit facilities for the establishment and expansion of smaller enterprises were lacking, and though Credit for Industry Ltd., had promised co-operation, a purely commercial institution could not comply with all the particular needs of the Special Areas.

On the recommendations of the Commissioner in 1936 the *Special Areas Reconstruction Association Ltd.*, was formed with a nominal capital of £ 1,000,000, subscribed by certain banks, insurance and other companies and individuals, for the purpose of financing small industries, either existing or to be formed in the Special Areas. The Association which co-operates with the local councils, banks, etc., opened an office in each Area, and a local board passes on all applications submitted. Advances are limited to £ 10,000 in any one case, normally for five years. The rate of interest and the conditions of repayment are determined after the offices of the Association have reported on the risk involved in making the loan.

Government which had been instrumental in the formation of the Association, did not subscribe to the capital, but under the Special Area Reconstruction (Amendment) Bill of May 29, 1936, State assistance was granted in form of a contribution to the management expenses and of a guarantee against losses, amounting roughly to 25 per cent of the total loans which had been issued.

Out of 784 enquiries received by S.A.R.A. to the end of August, 1937, 390 resulted in definite applications for loans, 87 of which were granted, while others were still under examination or had been withdrawn by reason of accommodation being obtained elsewhere. S.A.R.A., criticized for over-strictness in its early days has agreed to loans exceeding £ 500,000 in all, to be supplemented by nearly twice that amount of new capital raised from other sources.

The former flood of inquiries appears, however, according to the reports in June and November, 1937, to have been "shrinking to a trickle."

Another fund of £ 2,000,000 was placed at the disposal of the Treasury for the Commissioner for the Special Areas in Scotland under

the Special Areas Act, 1937, for grants to companies, to be applied as remissions up to 100 per cent of rent, rates, income tax and National Defence Contributions for a period of no more than five years.

Finally a fund of £ 2,000,000 is at the disposal of the *Nuffield Trustees* for loans in approved cases to manufacturers, establishing new industries in the Special Areas.

With the exception of the authority given to the Minister of Labour, in certain circumstances, to extend the operation of the Special Areas (Amendment) Act, 1937, to other districts also, these facilities have been available only to undertakings in the Special Areas. Many places outside the strict limits of these areas have also suffered severely from unemployment and the need has been felt to make loan facilities of a similar kind more readily available to assist new industries in such other parts of the country. The Government introduced the *Loans Facilities Bill* a few days before Parliament adjourned for the Summer recess, 1939.

The Bill is designed to empower the Treasury to provide financial assistance by way of loan to any person proposing to establish or to carry on an industrial undertaking in certain areas where there is severe unemployment and who is not for the time being in a position to obtain the financial facilities requisite for the purposes of the undertaking from banks or from financial institutions primarily engaged in providing financial facilities for long or medium-term periods. The Bill places no limit on the total amount of the loans which may be granted, but in the case of any single undertaking the aggregate is not to exceed £ 200,000, and the Treasury's authority to enter into agreements for assistance will terminate on March 31, 1942. In order that any particular area may come within the scope of the Bill, it will be necessary for the Minister of Labour to determine that it complies with the following conditions:—

"(a) That there is, and has been for a considerable time, severe unemployment in the area;

"(b) That opportunities for employment in the area are, or have within the ten years last past been, mainly dependent on one or more industries suffering from general depression or suffering the effects of changed methods in the industry or industries in question; and

"(c) That there is no immediate likelihood of a substantial increase in employment in the area unless new undertakings are established therein."

Agreements may be entered into only with such undertakings as may be recommended by an advisory committee appointed by the Treasury, and the assistance granted to any undertaking may not exceed the amount which the committee recommends. Moreover, the Bill will not permit the advisory committee to entertain an application for assistance except on the representation of a local development council which, in the opinion of the Board of Trade, is representative of the interests of persons engaged in commercial and industrial activities in the area in question, or of a larger area comprising it. Before making representation to the advisory committee that it is desirable that assistance be given to any undertaking, the local development council will be required to satisfy themselves:—

"(a) That there is a reasonable expectation of the ultimate success of the undertaking on an economic basis;

"(b) That the person who proposes to establish or has established the undertaking is not for the time being in a position to obtain the financial facilities requisite for the purposes thereof from a bank or such a financial institution as aforesaid; and

"(c) That the carrying on of the undertaking is not likely to involve uneconomic competition with any existing undertaking in the area in question."

Even if, in existing circumstances, it was found unnecessary to proceed with the Bill, the terms may indicate a line of approach to the problem should it again become acute.

#### (11a) SCOTLAND

An important scheme for the development of Scottish industry has been inaugurated in 1939 by the Scottish Development Council in the promotion and registration of the Scottish Development Financial Trust, Ltd. "The function of the Trust," it is stated, "is to promote and assist in the promotion of new businesses in Scotland and to finance new or established businesses in Scotland by means of loans, guarantees to bankers and others and/or by the direct subscription of share capital of any class, whether preference, ordinary, deferred or otherwise, or to loan capital of any class whether debenture stock, debentures or otherwise."

The capital of the company will be raised by means of an appeal for donations and subscriptions and also by the issue of Income Debentures carrying interest at the rate of 4 per cent per annum, such interest to be cumulative, but payable only out of the profits of the company as may be recommended by the directors. The aim of the Trust is to provide financial assistance for propositions which do not come within the scope of existing financial organisations, such as Credit for Industry, Ltd., the Nuffield Trust and the Special Areas Reconstruction Association.

#### (11b) NORTHERN IRELAND

The Government of Northern Ireland (which is an integral part of the United Kingdom) offers, as facilities to promote the establishment of new industrial units, in addition to free site grants for 20 years in respect of premises erected or purchased, and grants covering the first five years' rent of premises leased, as well as grants towards the income tax payable during the first five years:—

(a) Loans, interest free for the first five years, to meet cost of erecting new or of purchasing and adapting existing factories, with easy repayment terms after the initial five-year period.

(b) Loans at a low rate of interest, towards expenditure on machinery and for working capital.

#### (12) GREECE

There are, at present, no special credit facilities available for industry in Greece.

An attempt in this direction seems to have been made by the *Hellenic and General Trust Ltd.*, a joint stock company established in London in 1928, which, with the participation of the National Bank of Greece has granted up to 1932 loans to various industrial concerns, to the total amount of £ 450,000.

Since 1932, however, the above Company ceased granting further loans, as the funds set aside for investment in Greece was exhausted, and because of the exchange restrictions introduced in this country

The loans which were granted through the channel of the National Bank are long-term (10-20 years) sinking fund loans, at an interest rate fluctuating between 8-10 per cent which was later reduced to 5½ per cent, and secured on a first mortgage on all the installations and machinery of the debtor.

In general Greek commercial banks are of the "mixed" type sharing the business both of deposit and investment banks.

Two banks, the Bank of National Economy and the Bank of Industry, which were established in 1918, seem to have acquired only small importance.

### (13) HOLLAND

As in other countries, also in Holland the problem of industrial credit has come to the fore, and we find here a similar picture. Short-term credits are available with the "general banks," or commercial banks, which may be considered as mixed banks, as they carry on both deposit and investment banking. Their relations with industry are, however, not so close as they were in Belgium or in Central Europe. Whenever industrial enterprises are indebted to them to any considerable extent, we find the floating of such semi-long-term loans done in such a way that the banks take over, in payment of the book-credits outstanding, an equivalent amount in new shares or bonds, which they sell afterwards to the public. Thus the banks are acting as underwriters of loans which they float, and in this way they also manage to keep a liquid position.

This system, however, cannot satisfy in times when the capital market is not able to take up such issues, nor does it help smaller enterprises. For this reason the creation of special credit institutions has been proposed.

The Government which dealt with this problem first in 1932, then rejected the idea of a central, nation-wide institution and suggested that the provincial authorities should take the initiative in this matter.

The first steps in this line were taken by the Province of Limburg, and a first Industrial Bank was formed in 1934, which commenced activities in the middle of 1935.

Of the capital of Fl. 1,000,000 of this Bank the local authorities, provincial and municipal, subscribed Fl. 400,000. The Board of the Bank is composed by a representative of the Province, an industrialist, an economist, an auditor and a sociologist. Additional members can be adopted.

Before the Bank proceeds to grant a credit, the application must be brought before the "Economisch-Technologisch Instituut," a Government institution for the promotion of industry, acting as a kind of Société d'Etude, which has to consider all credit applications as to their economic soundness and desirability. The purpose of such institutes, the first of which has been established in the Province of Limburg, was to study the industrial possibilities in each respective province. The one of Limburg which had worked out plans for factories for instance for sodium and aluminium, is also the actual initiator of the Industrial Bank.

The Bank had to submit the applications for credit which are recommended by the Economisch-Technologische Instituut, to the central Commissie van Toezicht op Industrie Banken (Central Supervising Council of Industrial Banks), under the Chairmanship of the President of the Bank of Netherlands. The supervision of this Council, which had been established by Royal Decree, was a condition of the Government, for agreeing to the investment of public funds in such banks. In the meantime this Council has been disbanded and the supervision entrusted to the Board of the Company for Industrial Financing in the Hague, mentioned below.

After having heard the opinion of these two institutions, the Bank may approve and execute such loans, which can take the form either of a holding of shares in the enterprise, or of a long-term loan, secured by a mortgage or collateral. A condition in each case is the acceptance by the enterprise of supervision by the Economisch-Technologische Instituut.

A second institute of this kind, the Industrial Bank of the Haag, formed in co-operation with the Industrial Bank of Limburg, was registered on September 30, 1936. Its capital is supplied completely by Government.

The Government engaged in 1935-1936 in carrying through its programme of industrialisation has introduced a Bill into Parliament in 1935 providing for the founding of a "Company for Industrial Financing" which was to be established for the provision of long-term credits to and the participation in the capital of new or existing industrial enterprises, if employment in Dutch industries can thereby be promoted. In addition, the company aims at the provision of long-term credits to and participation in the capital of approved regional industrial banks, from which it may take over credits. The company is also

authorised to co-operate in the carrying out of relief schemes on behalf of industries prescribed by the Government. The State is to participate up to nine-tenths in the capital of this company. The Board of Control will consist of the Minister of Commerce, Industry, and Shipping, and the Minister of Finance.

Both existing Industrial Banks were stated to have met a real need, though the actual business volume was rather limited.

The business of the Company from its establishment to the end of 1938 included approval of loans totalling 2½ million florins, and of some capital participations. The interest charged is generally 5 per cent.

#### (14) HUNGARY

The relations between the banks and industry have been closer in Hungary than in almost any other country. Although preference was always given to industries closely connected with, or of immediate interest to agriculture, nevertheless the banks extended their financial support to a whole range of other enterprises, whose products were destined both for domestic consumption and for export. But the need for a specialised industrial credit institution was felt also here, and in 1928 the *National Hungarian Industrial Mortgage Institute Ltd.* has been created, with a capital of 10,000,000 pengos. Of this capital 20 per cent were taken up by the initiators, i.e. the Federation of Hungarian Industries and its member unions, and 80 per cent by the Government. Loans, against which mortgage bonds are to be issued, are given up to a third of the estimated value of the tangible assets of enterprises which have shown in the foregoing years that can pay interest and sinking fund on such loans. Only in exceptional cases may the bank depart from this principle and accept other guarantees. No loan shall be for less than 10,000 pengos, and shall be given, at the option of the Institute, in cash or bonds, and to be repaid in semi-annual instalments.

The bank is authorised to issue bonds up to five times its capital and reserves; 20 per cent of the amount of each bond issue must be set aside as special reserve for such issue.

The bank started operations in 1929 with the proceeds of a foreign loan of \$ 4,000,000 of 7 per cent First Mortgage Sinking Fund Gold Bonds, repayable over fifteen years.

The financing of the five-year investment plan, 1935 (†) has also set the banking houses a hard task. A sum of one milliard pengos was appropriated by the legislature for the financing of this plan, 600 millions of which have been covered by a non-recurrent capital levy and 400 millions by internal loan. In addition to the punctual performance of their part of the financial work thus imposed on them, the banks have also to be at the disposal of business and individual clients, to help them meet their obligations under the plan. The solution of these problems was rendered more difficult as it partly coincided, as already mentioned with a period of deposit withdrawals. The power and elasticity of the credit organisation is evidenced, however, by the fact that these difficulties were successfully surmounted and the financing of the investment plan easily carried through to completion. Within a year more than 400 million pengos have been raised towards the 1,000 million total, an amount far in advance of the programme. This sum has returned into the circulation of the country's economic life and the realisation of the aims of the State has counterbalanced, or even over-compensated, the setback in private economic activities.

#### (15) ITALY

As in most countries where the capital accumulation of industry, and of the population in general, does not keep pace with the capital requirements of industry, also in Italy the commercial banks combined deposit banking with industrial financing; most of the leading banks were closely connected with industrial and commercial enterprises. With the coming of the Depression, however, some of the banks have established affiliated institutions in the form of purely financial companies to serve as intermediaries between themselves and some of the industrial undertakings under their control; often they had, in the early stages of the crisis attempted to help their associated industries by direct advances and by supporting their securities at the exchange. But in order to meet the drain on their deposits and credits from abroad and local, the banks had sharply to reduce their credits to important industrial customers, and, moreover, had to try to attain a more liquid position. Since then, the tendency to divert commercial banks from direct industrial participations has been the outstanding feature in Italian banking developments.

The three leading banks have handed over all their industrial participations to the *Istituto Mobiliare Italiano* (I.M.I.) which was founded as a semi-governmental institution in November 1931.

Its capital stock, on which the State guarantees an annual dividend of 5 per cent, is held by public bodies of various kind, but not by private banks. Its object is to relieve the commercial banks from the necessity of immobilising their funds in long-term advances to industry by carrying out this function itself. Its capital is 559 millions lire, and it is authorised to issue debentures up to ten times that amount. In special circumstances, these debentures may be guaranteed by the State. Issues are made as funds are required for loans to industrial concerns. These loans may be made on real or collateral security for a maximum period of ten years. But up to the end of 1933, the Istituto had granted only loans for three to five years, totalling to 2.5 milliards lire.

Among the important clients of I.M.I. mention should be made of the *Società Finanziaria Industriale Italiana* (SOFINDIT), which was an investment trust, created by the Banca Commerciale which transferred its industrial holdings (about 4 milliards lire) to this Company, against a Government guaranteed credit of one milliard. It secured funds also for certain other operations from I.M.I. It was finally taken over, together with most of the other important investment trusts holding assets totalling 7 milliard lire by the Liquidation Section of the *Istituto per la Ricostruzione Industriale* (I.R.I.), which was established as a Governmental credit institute at the end of 1932, and reorganized in June, 1934.

This institute is divided into two sections, one of which is concerned with financing industry, and the other with the unfreezing of credit. The former provides credit for longer term than the Istituto Mobiliare and raises its funds through the issue of bonds redeemable within 15-20 years. The capital of this Section is 160 millions lire, subscribed by the state and public insurance institutes.

The Liquidation Section is successor to the Liquidation Institute, which was established in 1933, when the Government had to relieve the banks from their frozen assets, for their gradual liquidation.

In 1936, as part of the Italian banking reform, I.M.I. took over the functions (and assets) of I.R.I., which was subsequently wound up.

## (16) LATVIA

Also in Latvia the banks followed the British example; and are hardly involved in direct financing of industrial undertakings to any appreciable extent. It was, therefore, a particular task for the *Latvian Mortgage Bank*, a semi-official institution, to assist manufacturers and artisans by loans for reconstructing enterprises destroyed during the War, for existing undertakings and the promotion of new industries.

Latvian industry, being in the making, did not possess large capita resources, nor had it a wide market. The newly arising manufactures lacked extensive commercial connections, and had to start from the bottom. Lack of skilled labour and foreign competition added to the difficulties, and losses were inevitable.

It was *Latvijas Banka* — the Central Bank which commenced operations in 1922 — which first came to the assistance of industry. At the beginning of its activities industrial loans ranked foremost among its credits. Later, in 1926, the Latvian Mortgage Bank relieved *Latvijas Banka* of the burden of industrial long-term loans so that the bank was able to confine its industrial credits to advances for the current needs of manufacture and export, and long-term credits were transferred to the new institution.

The Latvian Mortgage Bank, established by the Government in 1924 with a capital of 2 million Lat, issues debenture loans and also grants medium-term loans to industry. Also another Governmental bank, the Agricultural Bank, issues 3-year loans to rural industries at 6 per cent.

As a rule, the Mortgage Bank nurses enterprises with medium-term advances, until the opportunity arises for long-term issues. Such loans are issued to the debtor in form of debentures. As there is, however, only a small market for such securities, the Government banks undertake, on behalf of the Government, the purchase of such 6 per cent debentures at a rate of 96 per cent, and in single cases, which are provided by law, even of 100 per cent. The great advantage of this arrangement can be realised only when keeping in mind that debtors of the private mortgage banks realise only 70-80 per cent of the nominal value of the debenture loans, paid to them in securities and not in cash.

The bank until December 31, 1932, had devoted over a third of its resources to the assistance of industry by long-term loans. Of this amount, i.e. 23 millions Lat 40 per cent went for purchase of machinery, 34 per cent for conversion of short-term into long-term liabilities

19.9 per cent for construction and 1.2 per cent for other purposes. These loans were mostly for 12 years (75 per cent), some of them for 18 years (15 per cent) and only a few (10 per cent) for longer terms. Loans have been preferentially accorded to enterprises of a public utility character, such as power stations, and to enterprises using local raw-materials.

The loans were given at a rate of 30 per cent of a minimum evaluation of the mortgaged property. (The evaluation of the buildings and machinery offered as security was reduced from 82 to 66 million Lats, and on that 23 million were advanced).

In recent years, since 1934, Government has gradually taken up a position from which it can control directly or indirectly practically every section of economic life. This development became particularly noticeable in banking, when in 1935 Government formed a commercial bank, the Latvian Kredit Banka, ostensibly with the object of absorbing unsound institutions. In effect this bank has reached a monopoly position in Latvian commercial banking. It is now used by Government as the instrument of its policy of industrialisation.

Meanwhile a definite change has also taken place in the capital structure of the country and, owing to the accumulation of capital in recent years, industrial enterprises do not depend any more on the banks exclusively, but are able to obtain capital by issues on the local market. It is of interest to note, that while up to January 1935, the average capital of limited companies amounted to not more than Lats 448,000, that of companies established during 1936/1937 averaged Lats 2,400,000.

#### (17) LITHUANIA

In Lithuania, as a rule, joint-stock banks do not grant long-term credits to industry. The banks, thus, have weathered the days of the Great Depression, and only one bank, involved with one particular industry, failed.

Lithuanian business men are hesitant to make long-term investments. Government is induced thereby to tighten its control of industry.

Special credits to industry were granted from State funds through the Bank of Lithuania, The Bank of Issue, and the Central Bank.

At the end of June, 1939, Government decided to establish a mortgage bank with a capital of 3,000,000 Lits. to assist industry and construction.

#### (18) NORWAY

The Chairman of the Bank Association stated in his annual address, August 1935, that Norwegian industry relied too much on the banks for long-term credits and that such credits should be advanced through special corporations. This idea has been taken up by the Government which, in 1936, established the Industrial Bank (Den Norske Industri Bank) with a share capital of 10 million kronors, 51 per cent ("A" Shares) of which were contributed by Government in form of Government Debentures, which the bank has to amortise over a number of years. The balance ("B" Shares) were subscribed by Government, Municipalities or banks. The "B" shares are guaranteed 4½ per cent interest.

The object of the bank is to grant long-term loans to industrial undertakings, including hotels, particularly of a smaller size, and to obtain the funds required hereto by issue of debentures, which carry a Government guarantee.

Loans, which must not exceed 500,000 kronors and 25 years should be secured by mortgages on real property (up to 60 per cent of estimated value) and machines (up to 40 per cent of estimated value) or by pledges of raw materials, semi-finished or manufactured goods or other industrial securities.

The cost of the credit must cover the interest on the shares or debentures plus the expenses of the bank (which were only 8 per mil on the share capital during the first year) as well as the risk premium, which is 2 per cent of the amount of the loan, plus an annual contribution, and thus amounts to about 7½-8 per cent.

No loans are to be granted to undertakings employing less than 5 workmen, or less than 5 HP.

During the first year of its operations, September 1936-37, total loans amounted to 6,595,000 kronors, which figure after the third year, 1938-39, had increased to 24,815,000 kronors.

The bank is directed by a board of 7 members, 4 of which are elected by parliament, the rest by the holders of the "B" shares.

*State-Guaranteed Loans to Industry.*—In 1935-36 the Government were authorised to issue State guarantees up to an amount not exceeding Kr. 5 millions, with the object of facilitating new industrial enterprise and enabling existing concerns to remain in operation. In 1936 the limit was raised to Kr. 18 millions and in 1937 to Kr. 20 millions, to which must be added Kr. 0.5 million authorised separately in 1935 for the benefit of a projected artificial silk factory. Furthermore direct grants of Kr. 1.76 millions were voted for the financial year 1936-37 and of Kr. 1.5 millions for 1937-38 for the same purpose and in aid of tourist traffic (hotels). It was also intended that these grants should provide cover for losses on guaranteed loans. A similar direct grant of Kr. 1.5 millions has been approved for 1938-39.

Applications for aid are addressed to the Ministry of Commerce, which usually passes them on to the "State Commission for New Enterprise." The current business connected with the scheme is now transacted by a special office called "Garantikontoret," which was established at the Ministry of Finance in December, 1937.

Up to the end of 1937 guarantees totalling Kr. 15.62 millions had been promised, but there had been actually issued guarantee documents for only about Kr. 3.99 millions, most of which was spread over a considerable number of concerns in small sums, the largest loan guaranteed being Kr. 675,000. Of the credit grants about Kr. 1.14 millions had been utilised, including Kr. 0.5 million set aside for actual, probable and possible losses. The largest guarantees authorised, but still ineffective, were about Kr. 6.75 millions for the modernisation of shipbuilding yards at Bergen, Stavanger and Fredrikstad, and Kr. 4 millions for the construction of a sulphate pulp mill.

The Storting in 1936 authorised the issue of these State-guaranteed loans to shipyards in order to enable them to extend and modernise their plant, with a view to their building the large vessels for which Norwegian ship-owners commonly placed contracts abroad. This guarantee was not made use of as the conditions attached to it could not be fulfilled, but negotiations proceeded between the Government

and the interested parties and a new scheme was approved by the Storting in June, 1938. The Ministry of Finance then received authority to guarantee on certain conditions loans, amounting in all to Kr. 5,445,000.

#### (19) POLAND

Various credit facilities have been created in Poland for the aid of industry.

As early as 1921 the *Polish Industrial Mortgage Credit Association* was set up for granting long-term loans to Polish industrialists.

The *National Economic Bank*, established in 1924 as a Government institution financed various industrial enterprises and acquired also majority holdings in undertakings considered of major importance for the national economy, such as automobil works, potash mines, fertilisers and other chemical industries.

In 1933, the *State Acceptance Bank* was formed to provide medium-term credit for which existing facilities were considered inadequate.

Also the *Bank of Poland* makes direct advances to industry, particularly at its branches.

Another institution, the *Polish Industrial Bank*, Lemberg, failed during the Depression owing to the failure of its mother company, the *Société Financière* at Paris.

According to "Gazetta Handlowa," Government has provided for the year 1939 Zl. 15,000,000 for credits for the expansion of industry. These credits which are to be amortized over 15 years are provided mainly for medium and small sized undertakings to modernize their plants.

Until February, 1939, such industrial credits were granted totalling Zl. 8,000,000, including Zl. 3,800,000 to chemical and Zl. 1,600,000 to metal industries. The bulk of the credits was intended for industries in the so-called "New Industrial Centre" of the country.

(a) The *Polish Industrial Mortgage Credit Association* was founded by owners of industrial enterprises for obtaining mortgage bond loans secured on real estate, machinery and equipment. Parties contracting loans from the Association became its members at the moment the loans were granted, for which they were liable not only by the mortgaged property, but by "their entire personal fortune."

The Association (which was to be considered established when at least thirty industries with property valued not less than 100,000,000 Polish Marks\* had joined it), granted loans to owners of industrial enterprises already in operation or to be put in operation, for periods of 25 years, paid in mortgage bonds and at a rate fixed by the Council. The latter, subject to the confirmation of the Treasury, fixed also the rate of additional payments to the reserve fund, to which the borrowers had to contribute during the first five years of the currency of the loan, and the annual contribution to the administration expenses.

Loans and interest were to be repaid by semi-annual instalments in the same currency as the loans were contracted or in coupons or in redeemed bonds.

The property to be mortgaged was to be evaluated by the Association's experts at the applicants expense, and had to be insured in the currency of the loan to an amount fixed by the Board of Directors.

The amount of a loan was not to exceed 50 per cent of the valuation of the site and buildings, and 40 per cent of machinery and equipment. An amount not exceeding 20 per cent of the loans could be retained by the Association as security for the payment of interests not secured by the mortgage, administrative expenses, insurance premium, etc.

Bonds were also issued in foreign currency (which the Association was entitled to do only during the first ten years of its existence), up to an amount of £ 20,000,000 and more, with the special permit of the Treasury.

The Association was managed by a Board of Directors of six, and a Supervising Council of twelve members, four of which were elected by the bondholders.

A delegate of the Treasury with a right of veto, who supervised the Association's activities participated at the meetings of the Board of Directors and the Supervising Council.

It appears that during the whole period of its existence the Association granted about 150 loans to 133 concerns amounting to £ 1,251,695, and \$2,324,860 in three issues, viz. a 6 per cent Dollar (later converted into Zloty) and a 7 per cent and 8 per cent Sterling loan resp. In 1937 these bonds were quoted at 81 and 91.5 per cent for the 7 and 8 per cent issue resp.

\* *i.e.* the Polish Currency of the early post-war years, later on replaced by the Zloty.

(b) The *National Economic Bank* in its Statutes is entitled to grant industrial loans against bank debentures. Loans on factory buildings may serve as collateral for the issue of Bank Debentures only, if the premises can easily be converted into dwellings or are adapted for the use of an industry which, in the opinion of experts, has definite prospects for development in that district. The loan may not exceed half of the assessed value of the land, two fifths that of the buildings and one third that of the plant definitely required for the running of the industrial undertaking and permanently attached to the real property. Water power forming a portion of the industrial real property may be taken as security for the loan up to one third of its estimated value. Buildings and equipment will be assessed both on the basis of their actual and their liquidation value.

Though the loans should be secured by a mortgage on the industrial site, other real estate can be accepted as additional security, if warranted.

If the value of an industrial undertaking decreases and no longer affords to the Bank the security foreseen by the Statutes, the Bank has the right to require the repayment of the whole or of a portion of the loan at three months' notice, irrespective of the originally stipulated terms.

Since its foundation the Bank assisted mainly industrial undertakings of particular economic importance to the country as a whole, and those in whose existence and development the Government was especially interested. For this reason the chemical, electrical, and metallurgical industries have enjoyed primary consideration in respect of loans from Government funds administered by the Bank.

The assistance granted to these undertakings by the *National Economic Bank* covered the provision of the initial capital, the granting of working capital, and the provision of investment funds in the form of long-term mortgage credits in bank debentures.

During the inflation period and the subsequent long depression, numerous industrial undertakings deprived of their working capital were unable to obtain financial assistance from private financial sources or from abroad, and it became necessary to call upon the State for assistance, this task being one which fell upon the *National Economic Bank*.

And again, on the termination of the depression, industries had to keep pace with the general development, and were obliged to modernise their plants and to adapt their production to the increasing requirements and the altered demands of the market. The carrying out of these plans necessitated the provision of large amounts of investment and operating capital which could only be obtained by means of permanent long-term investments. Most of the industries were unable to raise the necessary fund privately and had to rely on the National Economic Bank, which took over the debts in exchange for shares, for ultimate liquidation on the capital market.

Thus the Bank acquired considerable holdings in industrial undertakings, until in 1930 the right of the Bank to participate in such ventures was cancelled by Government and a gradual reduction of such holdings started.

*Industrial Debenture Loans.*—During the year 1927 the Bank, for the first time, exercised its right of issuing industrial debentures and commenced to issue loans through the medium of bank debentures at  $7\frac{1}{2}$  per cent (later reduced to  $5\frac{1}{2}$  per cent) and redeemable over  $18\frac{1}{2}$  years, and in minimum amounts for a loan of 300,000 zloty, subsequently reduced to 100,000 zloty. These loans were primarily intended for assisting state enterprises, or concerns in which the State is interested.

By the end of 1931 the number of such loans had increased to 20, totalling 33,537,800 zloty. No loans of this kind appear to have been issued since. The number of rejected applications was nearly as large as that of the loans granted.

*Long-term Loans.*—After a temporary cessation during the height of the depression, the Bank commenced in 1932, in response to the improved conditions on the security market, to grant long-term cash loans secured and repayable as long-term bond loans.

*Short-term Loans.*—With the growing revival of trade, and the improved conditions of employment in industry during 1927 the requirements of working capital also increased. This demand was met by the Bank within the limits of its programme, special attention being paid to the

sections of industry catering for the export markets. The financial assistance of the Bank was involved by almost every branch of industry in discount, or lombard credits, or in overdrafts on current accounts.

With the improvement in the financial position of the country the Bank thought of leaving this field of banking again to the ever widening sphere of the private and commercial banks. In Poland they were originally of the *banque d'affaires* type and had retained the practice of granting medium-term credits to industry in form of a credit in current account secured by mortgage. They were assisted herein by the National Economic Bank by re-discount of such credits, particularly to smaller concerns. But in 1937 the requirements of industry induced the National Economic Bank to introduce a new type of *medium-term debenture credits*, primarily to medium and small undertakings. These credits may not exceed 50 per cent of the value of the land, 40 per cent of the value of the building or 33½ per cent of the value of the machines on which the mortgage is granted. Their duration is up to seven years, and they are repayable in equal half-yearly instalments; in exceptional circumstances amortisation may be postponed for two years. The rate charged is 6 per cent, the price of issue is 96.5 per cent, the administrative surtax is ½ per cent half-yearly.

The Bank issues its own 7½-year State-guaranteed bonds up to the amount of the loans granted; retirement of these bonds takes place *pari passu* with the repayment of the loans on which they are based.

Special credits for small industry and artisans are granted direct or through the channel of co-operative societies and commercial saving banks, some times at rates below its own capital costs.

Of interest to industry are also the housing loans for workers' dwellings granted through the intermediary of "Ton," totalling Zl. 8,297,000 per December 31, 1937, which amount includes Zl. 640,000 to industrial undertakings. The rate of interest on these loans was 0.95 per cent in case of block houses and 2 per cent in case of small dwellings.

The following table shows all cash credits to industry and artisans as per December 31, 1937. It does not include the 5½ per cent debenture loans to industry of which 16 were granted by the end of that year

totalling Zl. 23,402,800, nor the credits granted by other banks out of their re-discount credits with the National Economic Bank :—

	Cash Credits 31-12-37 (000's omitted)			
	Mining	Industry	Artizans directly	Artizans indirectly
Total Cash credits ... ..	5,002	190,732	587	6,400
% of total... ..	0.41	15.49	0.06	—
<i>Short-term :</i>				
Total ... ..	2,654	106,488	298	—
Bills discounted ... ..	1,980	34,372	78	—
Term Loans ... ..	235	23,418	28	—
C/A ... ..	439	48,698	192	—
<i>Long-term Banking Credits</i>				
(excluding Debenture Loans)...	9	1,586	30	—
Treasury Funds ... ..	2,339	82,658	259	—

### (20) PORTUGAL

Industrial credits in Portugal are provided by the National Credit Institute, the *Caixa Nacional de Crédito*, which was organised in 1929 to take over all operations in agricultural and industrial credits both in Portugal and the Colonies. Its funds consist of advances by the *Caixa Geral de Depósitos* or sums provided by the Treasury, and any other resources assigned to it. Its position in the national economy is steadily growing in importance, not only on account of the resources at its disposal but because of its policy in imposing modern accounting and technical methods on the concerns it assists financially. Its balance sheet in June, 1933, showed assets of £ 3,230,000 of which £ 1,701,000 represented agricultural and £ 1,547,000 industrial credits. The chief industries benefiting from the Caixa's operations are, in order of advances, transport, electrical, chemical, tourism, shipping, steel, mining, textiles, agriculture, sardines and cork.

Briefly, all credit transactions by or for the account of the State in favour of agriculture and industry, and all pension charges, have been centralized in two institutions: the National Credit Institute and the National Provident Institute, which both are departments of the Caixa Geral de Depositos, and are managed by it for the State. The National Credit Institute, as shown before, extends agricultural and industrial credits, out of the sums provided by the Caixa Geral, while the Provident Institute finances the various cooperative organisations.

The operations of the National Credit Institute were as follows:—

	Outstanding December 31, 1937
	Croton
Agricultural Credit (canp. igoes) ... ..	10,922
" mortgages ... ..	1,361
" credit banks ... ..	110,744
Industrial Credits ... ..	135,679
Banco Fomento Colonial ... ..	79,679
Direct colonial development ... ..	17,860

### (21) ROUMANIA

In Roumania, the larger banks had until recently the same characteristics as the commercial banks in most Central and East European countries. They were essentially mixed industrial and deposit banks. Even foreign banks in Roumania operated on the same lines.

The situation, however, changed. After the failure, during the Depression, of a number of big banks, which were heavily engaged in industry, the new Banking Law of May 4, 1934, aimed at the elimination of certain undesirable practices in mixed banking. The law prohibits the participation of banks in industrial or commercial enterprises to an amount exceeding 25 per cent of their capital and reserves.

Under these conditions increased importance was attributed to the *National Bank for Industrial Credit* (*Société Nationale de Crédit Industriel*), Bucarest, which had been established by a law of June 23, 1923.

The purpose of this institution was to supply medium and long-term credit to Roumanian industry in all forms, such as :

(a) Credits in current account or on fixed terms, against bonds or lombard of raw material and produce or other movable industrial property which is found in factories or store-houses, or even against the private movable property of an industrialist. Such collaterals can be replaced by a bank guarantee or can be taken in addition to a bank guarantee. In exceptional cases guarantees of one or several persons can be accepted, or any other "real" guarantee.

Such credits are limited to 6 months, but can always be renewed for a similar period.

(b) Credits in current account or on fixed term against mortgages or chattel mortgages on industrial equipment, to be repaid in annual instalments, over a maximum of 20 years.

(c) Credits against debentures or shares of industrial enterprises.

(d) Credits against warehouse or shipping certificates, resulting from industrial operations, for terms of less than 6 months.

(e) Credits to industrial co-operatives, or to institutions for the financial aid in whatever form to small industries, at the terms of the credits granted to industries directly.

(f) Credits to expropriated agricultural landlords\* to utilise their expropriation certificate for investment in industry.

(g) Participation in the creation of industries which are of general interest.

(h) The Bank shall promote, direct, and assist in the creation of new industrial enterprises.

(i) The Bank shall establish a special section for credits to small industries, out of a special reserve fund.

The capital of the Bank amounts to 500 million Lei, of which the Government contributed 20 per cent and the National Bank 30 per cent.

The State guarantees the principal and the interest of Deposit Certificates, and of debentures to be issued by the bank, and such bonds and debentures are accepted as collateral by the National Bank, and are admitted as gilt-edged investments by trustees.

\* Expropriated under the Agrarian Reform.

After each 30 year period the State can withdraw its participation and the privileges accorded to the Bank.

In case that the subscription for the capital, at the beginning or on later increases exceeds the capital required, the State and the National Bank have the right to reduce their subscription up to a minimum of 5 per cent and 10 per cent respectively.

In addition the Bank may:

- (a) Accept fixed deposits.
- (b) Rediscount its assets with the National Bank, against the only signature of the bank.
- (c) Issue bonds up to the amount of three thirds of its share capital, which must correspond to actual charges. The interest on such bonds must be lower by 2 per cent than on the debentures.
- (d) Issue debentures with fixed interest.
- (e) Issue debentures to an amount corresponding to loans secured on mortgages and corresponding to the terms of such loans, up to 20 years.
- (f) Issue obligations (bonds) for 15 years up to the amount of its capital and reserves.
- (g) Contract loans of other kind, even in foreign currencies.
- (h) Issue guarantees abroad for payment by local industrialists of equipment and raw-material.

During the sixteen years of operations, 1924-1939, the Bank received:

Applications for loans... ..	Lei	21,997,000,000
Of which were approved ... ..	"	13,155,000,000
And issued ... ..	"	5,827,000,000

The rate of interest, which during 1927-1931 was as high as 12 per cent, was reduced first to 10 per cent and later to 9 per cent. A further reduction to 7 per cent became possible since 1934. The rate of interest is usually 3-3½ per cent above the re-discount rate of the National Bank.

The bank exercises control over the financed industries. The dividend of 6 per cent paid originally on the capital of Lei 500,000,000 (£ 100,000) has gradually increased to 8½ per cent in 1939.

As from November 13, 1938, a special import duty of 1 per cent was imposed under the new Law for the Promotion of Industry on all imports

for industrial and mining enterprises which were hitherto exempt from duty. The collections are to be used for a newly created fund for loans to small manufacturers and artisans. (The new duty was not collected from enterprises belonging to the State).

In April 1937, a Law was promulgated for the establishment of a *National Institute for Medium and Long-Term Loans to Artisans*, to be issued through co-operatives and another Law for a Bank for Gold and Mining Industry. Another recently formed State institution is the *Bank for the Industrialization and Price Stabilization of Agriculture*.

### (22) SPAIN

The *Banco de Crédito Industrial* appears to have been formed in 1917 with the moral assistance of Government but exclusively with private subscriptions. Of the share capital of 37,500,000 Pesetas, 60 per cent were reserved to Spanish banks and 40 per cent to the industrialists participating. Should the latter fail to take over these shares all capital would be supplied by the banks.

The administration is in the hands of an Administrative Council of 20 members, 15 elected by the General Meeting and 5 appointed by Government. Every member appointed by Government has the right of veto against any resolution which involves an infringement of the Articles of Association or is considered prejudicial to the interests of the Bank.

Advances made by the Bank to industrial undertakings enjoy priority over other creditors (in the same way as taxes imposed by Government). The credit operations of the Bank have to be published in the Official Gazette in order to make the existence of the privileged debt apparent to other creditors. The Bank is entitled to appoint the liquidator or receiver in case of bankruptcy of any one of its debtors.

The Bank's operations are divided into several departments (a-b) in accordance with the Royal Order of December 7, 1917, under which the Bank was constituted. The development of the Bank seems to have been rather slow. The total credits outstanding being about 163 million pesetas at December 31, 1935, were 30 millions lower than in the previous year. The credits are financed out of the share capital,

but mainly from the state treasury (the debt with the treasury increased from December, 1930, to December, 1935, from 87 to 112.3 million pesetas).

On the whole, the Spanish banking system follows more the Anglo-Saxon than the continental model.

Until the establishment of the Banco Crédito Industrial during the War, issues of industrial shares and bonds were handled by banks at Bilbao and the Sindicato de Banqueros de Barcelona. The latter under-writes industrial issues and issues its own securities for providing long-term credit for industry.

### (23) SWEDEN

The development in Sweden was similar to that in Germany. Also here all the credits required by industry<sup>1</sup> were supplied by the commercial banks which, however, never attempted to control industry. This system worked well until 1924 when in consequence of the post-war depression large credits proved frozen. This state of affairs, as well as the Kreuger Scandal and its consequences, led to the appointment of an Experts Committee, on basis of whose recommendations the Banking Law of 1933 was drafted, which came in force early in 1934. This Law prohibits, or makes difficult, for banks the purchase of shares and unsecured debentures for own account. It also prohibits the granting of credits for periods exceeding one year. It is, however, possible to renew such credits, which are to be regarded and treated as new credits.

These new regulations show already that commercial banks are no more able to cope with the credit requirement of industry, and a subsequently appointed Experts Committee to investigate the industrial credit problem, reported that special facilities were necessary to supply long-term amortization loans to the small and medium-sized enterprises, which could not place debentures on the capital market. Such loans were needed for the execution of large long-term orders, for modernising the equipment and general development.

In accordance with a resolution passed by the Swedish Parliament in June 1934, a semi-official banking institution for industrial credit, the *Aktiebolaget Industri Kredit*, Stockholm, was established in the autumn of 1934. The object of the new institute is to grant medium and long-term credits—particularly to smaller industries and artisans

lacking direct access to the capital market — and also, especially in view of recent banking legislation, to relieve the commercial banks of certain credits not of a short-term character if well secured. The institute was formed as a joint-stock company with a share capital of 8 million kronors, of which 6 millions were subscribed by the State, the remainder being taken up by the "Big Five" of the Swedish commercial banks. The Government through the National Debt Office also put at the disposal of the institution a guarantee fund of 12 million kronors, in the form of 4 per cent State bonds. These bonds, however, remain in the possession of the State, and will only be used if, in the case of liquidation of the institution, its own resources should prove insufficient. The institution is authorised to issue bonds for an amount of four times its guarantee and reserve funds subsequently accumulated from operating profits (Kr. 200,000 per December 31, 1937). Twenty per cent of the annual profits are allocated to this fund until it reaches 50 per cent of the share capital. Together with its share capital, the institution thus possessed an initial lending capacity of 56 million kronors. No bonds, however, have so far been issued. Its dividends are limited to 5 per cent, and the majority of its shares must always remain in State ownership.

Credits are to be issued as a rule for periods not exceeding 10 years, and only in exceptional cases exceeding this period. In each case satisfactory guarantees must be given. The maximum loan may not exceed 20 per cent of share capital and reserves. The bank should assist in a later conversion of the loan into debenture issue. Particular attention is to be given to the expansion of existing and the establishment of new industries, especially of these producing goods not hitherto produced in Sweden. But no new undertakings are to be supported which are only competitors to existing ones.

It appears that the demand for such credits was overrated. Only 3.6 million kronors were outstanding in such loans at the end of 1937 and 4.9 millions in 1938-1939. Since October, 1937, the rate of interest charged has been 3½ per cent.

The Quarterly Review of Skandinaviska Banken in 1939 rightly noted that:—

"The demand for capital on the part of the small industries, is not at all marked. It is significant that AB. Industrikrédit, an institution founded several years ago, with the support of the Government, for the purpose of providing small enterprises with long-term capital has not yet engaged in any extensive operations.

" A factor which has directly conduced to the low level of interest in Sweden is the considerably reduced demand for long-term capital for industrial purposes, and to some extent also for house-building. During the last ten years industrial companies have pursued a very cautious dividend policy. They have not only been able to finance, mainly out of their own funds, an extensive rationalization and, in some cases, also an expansion of their business, but have also endeavoured with success to reduce their indebtedness. Some of the large companies have succeeded in freeing themselves completely from debt, and in some cases, which have attracted much attention, capital has been returned to the shareholders. Generally speaking, the outside indebtedness of the large and medium-sized industrial companies seems to have been reduced relatively to the value of their plants."

The Swedish experience thus seems to confirm the existence of what an American economist called the "state of a matured economy."

Another medium-term credit institution — the Shipping Mortgage Bank — was created in 1930, with the object of granting mortgage loans of ten to twelve years on ships. The State has placed a guarantee fund of 10 million kronor at the disposal of the bank, which may issue bonds up to 100 million kronors. At the end of 1937, the outstanding bond debt of the bank was 37 million kronors and the outstanding loans 38 million kronors; the rate of interest is  $3\frac{1}{2}$  per cent.

The facilities offered to medium and long-term borrowers by these institutions have been supplemented by various loan funds established by the Government to meet the needs of certain classes of industry. A *Fund for Loans to Industrial Undertakings*, reorganised in 1927, grants credits not exceeding ten years for the establishment of new industries, particularly those of importance to agriculture. A *Fund for Loans to Small Industries*, created in 1818, and a *Fund for Loans to Artisans*, established in 1910, supply the working capital or funds for the purchase of machinery to small entrepreneurs. The loan period may be as high as six years; the rate of interest is 4 per cent. A *Fund for Loans to the Shipping Industry*, set up in 1903, grants loans to shipping companies to finance renewals and modernisations of ships. A *Fund for Loans on Second Mortgages on Ships* was established in 1936.

## (24) SWITZERLAND

There are no special credit institutions for industry in Switzerland, where the deposit banks supply all the credit required by industry, very much on the lines of the German banks. They finance industry by means of long-term credits on a large scale, but generally without taking direct control of industrial enterprises, though often they have representatives acting as advisers on the board of these undertakings. They also conduct investment-banking and underwrite public issues. But the banks rely for this purpose not so much on deposits than on a capital raised by the issue of long-term debentures (for ten to twenty years), and by what are called "Kassen-Obligationen," a financial instrument of a kind between a deposit certificate and a debenture. They are issued to bearer or on name against a paid deposit for 3 to 5 years, in consideration of a higher rate of interest. They are usually for 500, 1,000 or 5,000 francs, and can be for a definite term or provide for a specific term of notice. Smaller amounts are usually repurchased by the banks on request of the owner, while advances are granted on bigger amounts. By the end of 1937 the various Swiss financial institutions had in circulation 4,761 millions francs in such securities, i.e. 1,386 millions less than in 1931. This decrease is the result of a greatly reduced demand for credit by industry. Owing to the pressure of capital looking for investment in such "obligations," the banks issue them only for longer periods, up to 10 years and are thus able to obtain working capital at low interest, which in 1938 stood at about 3.8 per cent.

In view, however, of the normally short-term currency of such "Kassen-Obligationen" and the possibility of withdrawal, it cannot be considered an entirely satisfactory instrument for obtaining capital to be used for long-term credits to industry.

But also the long-term debentures did not prove satisfactory. In times of a run, a bank considering its reputation cannot refuse to repurchase or to advance on its own debenture.

If the banks' direct relations with industry are less close than in other countries they have, on the other hand, established many of the trust companies which, as holding companies, provide a channel through which the banks can exercise an influence on industrial concerns without becoming closely identified with them. (Many of these

trust companies, incidentally, suffered severely during the Depression). These trust companies "substitute" their own securities for those of the industries in which they invest.

(25) U.S.S.R.

An economic system of the unique character of U.S.S.R. requires a very special financial organisation, which to describe is not the place here, and we wish, therefore, to confine ourselves here to a short sketch of the main institutions in our field.

Before the First Five Year Plan there existed in addition to the Central Bank (Gosbank) five central State Banks, of which two, the Industrial Bank and the Electro Bank were set up in 1922 for supplying credit to industry.

In 1926 a bank for long-term loans had been formed as an off-shoot to the Industrial Bank. Its funds consisted of a percentage of the profits of the Industrial Bank, money realised by client enterprises from the sale of unnecessary and immobile assets and certain levies on the profits of industrial enterprises. Its chief source of loanable funds later on became budget appropriations.

The question whether long-term funds were to be given to industry in the form of interest-bearing repayable loans or as grants remained undecided for some time. Up to 1926 budgetary grants were nominally repayable, though, as a matter of fact, not a single enterprise actually made any repayment to the Finance Commissariat. This, however, was not the fault of the enterprises themselves, for repayment should naturally have been provided out of profits. But before repayment could begin, the Five Year Plan had come into operation laying down more or less exactly how profits were to be distributed, and in this distribution repayment of loans was not included. Therefore, as a general rule, budgetary appropriations were given in the form of unrepayable grants. Loans granted by the Bank from its own and borrowed resources remained repayable.

By a decree of February 1928, the short-term operations of the Industrial and Electro Bank were entirely handed over to the Gosbank. Short-term credits were to be supplied out of deposits, while the chief source of long-term credit remained, as before, budgetary grants.

A fundamental change took place in the whole system of capital and credit supply when the First Five Years Plan was introduced.

Under the new system, long-term finance is supplied by the *Probank* (Bank for Financing the Capital Development of State Enterprise) which in its purpose has undergone various changes from 1922 to 1932. Now all State enterprises, industry, transport, etc., receive capital through the *Probank*, not as loans, but as grants.

Short-term credit is supplied by the Central Bank only. Such credit is supplied to industry under three heads: planned, unplanned and advances against goods in transit, usually at a rate of 6 per cent, and, in case of planned credits, for a term of four to five months on the average.

Planned credit, as its name implies, covers credit requirements which can be foreseen and consist mainly of advances to cover seasonal fluctuations in the clients' purchases of raw material, manufacturing processes, etc.

The term unplanned credit really amounts to an admission that plans cannot be rigidly adhered to. In effect, unplanned credits are granted to cover temporary difficulties of a client, such as, for example, the non-receipt of payment for goods sold at the due time, having to hold goods for a longer time than was anticipated through inability of obtaining transport, etc. To a certain extent the branch banks themselves are allowed discretion in according unplanned credits, which are usually only for a few days, and in no case for more than a month. Each branch bank maintains a certain reserve in order to cover such emergencies. An application for an unplanned credit which is not obviously due to a merely temporary cause has to be approved by the regional Head Office or, in extreme cases, by the Head Office in Moscow.

Credit for goods in transit is an advance to the manufacturer to cover the value of goods during the interval between dispatch and receipt of payment from the customer. In view of the long distances in Russia, the lapse of time between dispatch of invoices and receipt of payment is often considerable, and it is one of the main principles of the credit system that no enterprise shall even in any way give credit to another enterprise. Therefore, immediately goods are dispatched, an advance is received from the Bank to cover the period until payment is received. These credits cannot be exactly planned from day to day, since obviously loadings are liable to fluctuate, especially in view of the shortage of rolling stock on the railways. Therefore, a certain amount of latitude is allowed in budgeting for this type of

credit. But in principle these credits are included in the general Plan, fluctuations being covered by reserves held at the branch banks for this specific purpose.

One of the main principles in the short-term credit system is that advances are given for a specific purpose and are repaid as soon as their purpose is accomplished. An example of financing highly seasonal production is afforded by sugar factories. Enterprises of this nature obviously require a large volume of short-term credit in relation to their own capital. When beet deliveries commence, about the middle of September, the Bank opens an agreed credit in favour of the factory. The factory, however, does not itself handle the money, but hands to the farmer a voucher for each load delivered, showing weight, quality, price, etc., the sum of money represented by the voucher being paid out directly by the Bank, frequently by a bank official who brings a supply of notes and opens a temporary office in the factory premises. Every five days, the factory makes out a statement showing the total sums paid out, to which is attached a bond securing the advance on the sugar beet delivered. As the beet is converted into sugar, a new advance secured on the manufactured sugar is granted to cover manufacturing costs as well as the cost of the raw material, and the original advance against the raw beet is paid off. The reason for dividing the credit in this way is that two forms of credit are involved: viz. (1) a credit to purchase raw material, and (2) a credit to finance a manufacturing process. The conversion of the first into the second maintains intact the principle that every credit is granted for a single and strictly defined purpose, and must be repaid when the purpose is achieved. The credit is finally repaid as the sugar is sold.

#### (26) YUGOSLAVIA

The close connection of Yugoslavian banks with Vienna and Berlin influenced also the banking system as a rule. The larger banks maintain close relations with industrial enterprises by participation and long-term credit. As the country is still predominantly agricultural, these participations did not involve the banks into difficulties, as it happened in other countries.

The credit requirements, however of the slowly developing industry do not seem to be satisfied by these bank credits and a special industrial credit institution has been under discussion for quite some years. A

"Privileged Bank for Handicrafts" was established some years ago with the aid of the Government, while protracted negotiations as to the establishment of the *Banque Privilégiée Industrielle* are carried on since 1926. In that year a committee was appointed, composed by representatives of the Government and the Chamber of Industry, for the purpose of mapping out a plan for the proposed institution, its finances as well as the required legislation.

After several years work this committee produced two draft-laws, one for the creation of the proposed Industrial Bank, the other about the issue of industrial debentures. According to these proposals the Bank was to be established as a limited company with a participation of the State in the capital, and a guarantee of the State for the deposits. The capital was to be 150,000,000 Dinars and the issue was foreseen of debentures secured by the mortgages on industrial property, the resources of the Bank and by a State guarantee.

The crisis of 1929 has frustrated the labour of the Committee, which, however, resumed its work in 1934 and elaborated several schemes, of which the most important are the following :—

- (1) Industrial mortgages to be issued by the State Mortgage Bank.
- (2) Creation of the Industrial Bank, the capital of which to be provided in an obligatory way by a levy on the industries over several years in proportion to the capital invested.

The forthcoming establishment of such an industrial bank, with special privileges by the State, was announced by the Minister of Commerce and Industry in Parliament early in 1939, but subsequent events apparently prevented the realization of the scheme.

## B.—BRITISH OVERSEAS EMPIRE

### (27) AUSTRALIA

A Report on the "Monetary and Banking Systems" in Australia, submitted by a Royal Commission in 1937, raised towards the end of the recommendations (which are rarely unanimous) also the question of the supply of capital for industry.

There is also a lack of facilities for the provision of long-term capital for persons of limited means who have been successful on a small scale in a secondary industry which is capable of expansion and deserving of encouragement in the public interest. The requirements of this type of borrower are too small to justify a public issue of shares

and in most cases a public issue is not likely to be successful. Bank advances are usually very difficult to obtain for any purpose of this kind, and being subject to repayment on demand are unsuitable in most cases, as there is no prospect of repayment for a period of years. Unless the proprietors are able to raise the money privately, the business can expand only out of re-invested profits. In the initial stages, it is improbable that these would be sufficient to provide for the necessary expansion. It is usually very difficult for such a business to raise money privately, and other facilities should be provided which would enable loans to be made for periods of from three to ten years at appropriate interest rates.

"To meet the needs of small concerns in secondary industries, it is desirable to provide facilities either in the form of a new institution specially established for the purpose, or by some adaptation of an existing institution. It would be necessary for any such institution to have available the services of technical advisors, firstly to examine the prospects of the business, and, if a loan is made, to advise the owners on such matters as manufacturing methods, factory lay-out, costing and marketing. Since the object of the institution is to enable industries to be developed in the national interest, profit should not be its main consideration, but there is no reason why it should not make profits.

"As the industries we have in mind may be aided as a matter of national policy or local policy, the provisions of the necessary machinery and funds might fall to either the Commonwealth or a State Government, according to the circumstances. We recommend the Governments, with assistance of the Commonwealth Bank, should investigate the problem of setting up institutions to supply the needs of small concerns in secondary industries."

The Government so far only decided to give effect to the recommendations for mortgage lending to primary industry and for capital for small secondary industries. But practical steps to implement the recommendations have only been taken by the government of Queensland, though for rather different considerations than those which prompted the recommendations of the Banking Commission. The latter came in for severe criticism in the Circular of August 23, 1937, of the Bank of New-South Wales, which for its wider implication is fully quoted below:

"The Macmillan Report claimed to have detected a "gap" in the credit facilities provided by the British financial system and recommended that the gap should be filled. The few years following the publication of the Macmillan Report saw in London a long series of meetings and conferences to discuss ways and means of forming special companies to fill the "Macmillan gap." After a good deal of delay one or two organizations were started but complained of a lack of suitable business. Meanwhile the Board of Trade's periodical reports showed that the rate of increase of small industrial units in England during the period in which this gap was supposed to exist had been more rapid than the rate of growth of the rest of the industrial structure. The Australian banking system is like the British, a really flexible system, and is always able to lend if it judges individual borrowers to be "credit worthy." This flexibility and personal basis for credit probably gives a much better chance to the small man than could any large financial institution specially designed to assist him, but unable to make contact with him because it would not have the numerous branches and personnel which the trading banks already possess."

"The recommendation that a mortgage bank or banks shall be established is probably as academic as the Macmillan gap proposal. Theoretically it is all wrong that banks should borrow short and lend long, it would be if the Australian banks were small, set up on the American model and unable to get a wide distribution of their risks. Every practical banker will prefer to scrutinize for himself the properties against which money is to be lent on mortgage instead of leaving this vitally important business to a new mortgage bank and content himself with seeing only the bonds issued by the mortgage bank. It is because the banks' business enables them to borrow short that they can borrow cheaply and relend cheaply. In the absence of a subsidy or some other form of government assistance it will be practically certain that a new mortgage bank will not be able to lend as cheaply to long-term borrowers upon mortgage as the trading banks now do. The market rate of interest charged may in any favourable circumstances be lower, but in practice the borrower, even at a nominally lower rate, will almost certainly pay more as his long-term and short-term finance will be separated from each other and his borrowing costs will be calculated not upon a daily debit balance but upon the full extent of his long-term loan. Even if he has periodically a credit balance in his short-term account he will not be able to earn interest upon it. The net result

will be that he will gain nominal security by having a definite term of years set for the repayment of his loan, but he will pay dearly for the right as his daily balance will not be available to reduce his indebtedness."

#### (27a) QUEENSLAND

The *Industries Assistance Act, 1929-1933*, has been promulgated to foster and stimulate the development of industry by enabling advances to be made directly or guaranteed by the State to banks issuing such loans, if such loan is calculated to promote employment in Queensland.

Such loans are not to exceed 66  $\frac{2}{3}$  per cent of the total estimated cost of the work, and must be secured by a mortgage, or such other security which Government may seem fit.

Applications for such loans are submitted to a Board appointed by the Bureau of Industry under the Act to enquire into all the economic and financial aspects of any such application, and are forwarded with the Board's observations to the Minister who is free to grant or reject the loan. In case of approval the application comes before the Governor in Council for final approval.

After issue of a loan, Government is entitled to some supervision of the business, inspection of books and audits by an auditor appointed by the creditors at the borrowers expense.

In some cases in which financial assistance was given, members of the Board were appointed to the board of the assisted company.

In some cases applicants received technical advice through the Board, or advice on the operation of the business or suggestions of raising finance privately, which made possible the establishment of sound enterprise without the necessity for public financial assistance.

Proposals are always carefully examined with regard to the supply of raw-materials, prospective markets and ruling prices, as to whether the proposed venture will create beneficial or harmful competition and how it will affect employment. The availability of managerial skill for the proposed scheme is another point to be duly considered.

As the Act primarily aims at creating employment, adjustment to varying economic conditions are suggested. In times of boom, therefore, the Board may refrain from granting assistance, except in cases promising quick repayment of the loan while business conditions are still fairly active. Though the Act itself does not prescribe any such rules, its practical application seems to lead to the gradual development of a definite policy.

## (28) CANADA

There are no special credit facilities for industry in Canada. Although Canadian banks do not directly participate in ordinary commercial or industrial enterprises, they maintain none the less very close relations with them. Short-term industrial credits are advanced by the Canadian chartered banks. Since the Bank Act prohibits advances on the security of real estate and other fixed or immovable property, the collateral for these loans is usually raw materials, stock-in-trade or negotiable paper. Loans to industry are granted partly to supply working capital and partly to facilitate expansion which later will be financed by the issue of bonds or shares. To some extent smaller and financially weaker enterprises obtain short-term credits from larger and stronger units. For example small retailers may obtain short-term credits from large wholesalers on favourable terms.

Special credit facilities have been created to make long-term loans to agriculture, but not to industry. A large part of Canadian industry has been financed by capital imports and branch plant expansion. Other industrial enterprises have tended to be financed out of personal and corporate savings or by public subscription to capital issues, the former being more important in the smaller undertakings.

## (29) NEW ZEALAND

In October, 1936, an Act was promulgated "to promote the Economic Welfare of New Zealand by providing for the Promotion of New Industries in the most Economic Form and by so regulating the General Organisation, Development, and operation of Industries that a greater measure of Industrial Efficiency will be secured."

Section 22 of this Act provides for financial assistance to industry. It reads:—

"Co-operation with State Advances Corporation:

(1) The Bureau, by direction of the Minister of Industries and Commerce acting on the request of the Minister of Finance or the Minister of Labour, as the case may be, shall consider and report, with such recommendations as it thinks fit to make, on applications for loans from the State Advances Corporation, in accordance with section twenty-nine

of the State Advances Corporation Act, 1936, to be used for the development of any industry or the establishment of any industry in New Zealand, or on applications for grants or loans from the Employment Promotion Fund for any of the purposes mentioned in section thirty-five or in section thirty-six of the Employment Promotion Act, 1936.

(2) On the like request, made to the Minister of Industries and Commerce, the Bureau shall make general recommendations as to the utilisation of any funds available for any of the purposes aforesaid, and shall, so far as practicable, co-operate with the State Advances Corporation and the Department of Labour in the allocation of such funds and in the supervision of their expenditure.

(3) The Bureau may also, by direction of the Minister, make recommendations with respect to the expenditure of any other public moneys available for the furtherance of the objects and purposes of this Act, or for the appropriation of moneys for any such purposes."

These provisions required an amendment to the State Advances Corporation Act, 1936, Section 29 of which now reads :

"Loans for industries:—

(1) In addition to the powers conferred on it by the principal Act or this Act the Corporation may, in accordance with the provisions of this section, make loans for the development of any industry for the time being as carried on in New Zealand, or for the establishment in New Zealand of any new industry.

(2) No loan shall be made under the authority of this section except with the approval of the Minister of Finance and on such terms and conditions as he thinks fit.

(3) Where a loan is made under this section to any company the Corporation, for the purpose of safeguarding its interests, may acquire and hold shares in the company, whether such shares are fully paid up or not. In respect of such shares the Corporation shall have the same rights and be subject to the same obligations as other shareholders of the same class.

(4) All loans granted by the Corporation under this section shall be secured in such manner as the Board, with the approval of the Minister, thinks fit.

(5) The Minister of Finance shall guarantee the Corporation against any loss that may be incurred by it in respect of any loan made by the Corporation pursuant to this section. Any moneys payable to the

Corporation by the Minister pursuant to any guarantee given by him for the purposes of this section may be paid by him out of the Consolidated Fund without further appropriation than this section."

As to the practical application of the Act, the following information has been received from the Department of Industries and Commerce, Wellington, dated March 17, 1938:—

"The State Advances Corporation Act makes provision for advancing Government funds to industry on the recommendation of the Bureau of Industry. The Bureau is prepared to receive applications from any persons or firms for financial assistance, and each individual case is treated on its merits. The assistance is not limited to any one class of industry and has covered semi-agricultural enterprises, e.g. asparagus growing and canning, fishing, manufacture proper, etc. It may take the form of assistance to purchase plant, to erect a factory, to train workmen, etc.

The Bureau also has available to it the unemployment funds which can be used for promoting industry too.

Generally speaking, advances are not made to one unit in an industry which is in competition with other units in the same industry, but this is not a hard and fast rule and if the circumstances warrant such action, then the advance will be made.

The interest terms again vary according to the circumstances. The loan may be free of interest for the whole of its period, a portion, or it may be interest bearing from the first. A relatively low rate is generally charged and security is taken to the best advantage according to the particular circumstances. A loan may be short-dated (e.g. one granted for a year) or it may be lengthy (e.g. one for fifteen years, granted some two years ago).

It might be added that the Government has taken shares in a limited liability company where it has granted financial assistance to this company."

The XXth Annual Report of the Department of Industries and Commerce, covering the period, ended April 30, 1937, states: "The Bureau works in close co-operation with the Labour Department in relation to the subsidizing of industries and with the State Advances Corporation in respect of the extension of financial assistance to industries under the provision of section 29 of the State Advances Corporation Act, 1936. In connection with such applications, investigations are conducted by the Bureau, and recommendations made accordingly.

During the short period the Bureau has been established, a number of favourable recommendations have been made and funds provided to enable industries to become established in cases where finance from other sources is not available, or to develop an existing industry".

The following (XXIst) Annual Report records some 25 applications from industries during 1937-1938 for financial assistance. Funds made available from the Employment Promotion Fund for loans or share capital enabled several businesses to carry on and develop which otherwise would have been forced to restrict their operation.

Again, in 1938-1939, the XXIInd Annual Report states:—

"Thirty-three applications were made to the Government for State financial assistance for industrial purposes. In several cases the Bureau was able to recommend favourably on the applications, and the Government approved financial assistance being given to the firms concerned accordingly. Financial assistance is only granted in those cases where such action will enable a business to contribute to the economic welfare of the Dominion. It is gratifying to know that several new industries in the Dominion have been commenced or expanded which were not attractive to the investing public though whose activities have been successful following initial financial assistance by the Government.\*

During the year the Employment Promotion Fund ceased to exist as a result of the social-security legislation superseding the Employment Promotion Act. Industrial advances recommended by the Bureau had hitherto been granted from this fund. Such advances are now being made by the State Advances Corporation in accordance with appropriate provisions of the Industrial Efficiency Act, 1936 (section 22), and the State Advances Corporation Act, 1936 (section 29)."

### (30) SOUTH AFRICA

There are no institutions in South Africa (apart from the Land Bank), which specialise in making credit facilities available to industry. But the South-African banks engage in a wide variety of transactions; they

\* In this connection mention should be made also of the Iron and Steel Industry Act, 1937, which provides for the establishment of a State iron and steel industry.

also grant long-term credits, though theoretically repayable on demand. They, however, encourage their customers to satisfy their long-term credit requirements through other sources, such as finance or insurance companies. Some of the finance houses are almost entirely bound up with gold mining and directly subsidiary industries. Recently also a few Underwriting Companies along English lines have been established.

According to the L.O.N. Memorandum on Commercial Banks (Vol. I), one of the S.A. commercial banks has established a subsidiary company for the purpose of granting long-term loans to industry.\*

### (31) INDIA

The Indian Central Banking Enquiry Commission, 1931, in addition to commending the proposal to convert the Indian banking system into the mixed German type, made a definite proposal for the establishment of a Provincial Industrial Bank. In this recommendation, the Commission has been influenced by the weight of opinion as expressed in the several Provincial Banking Committee reports. It states that "the reports of the Provincial Committees indicate a general consensus of opinion that efforts should be made to start an industrial bank or banks to supplement the existing facilities for the financing of industries. The Bombay, Bihar and Orissa, and the Central Provinces Committees have recommended the establishment of Provincial Industrial Banks. The Bengal Committee has suggested the organization of a special type of bank to help middle-sized as well as large industries." Again, "the general trend of evidence before us was also in favour of establishing a special type of industrial bank or banks to finance industrial concerns."

That opinion in India favours the establishment of a special institution to provide initial capital to industry is undoubtedly true. But there is much confusion as to the scope and value of the proposed institutions. Some recommend them for the financing of medium-sized and smaller industries; others consider that industrial banks are suited only for large-scale businesses. Again, whilst many emphasize the need for promoting and financing permanently the requirements of industries,

\* An Industrial Development Act was promulgated in 1940, and an Industrial Development Finance Corporation established subsequently.

there are a few who would limit their activities to the function of assisting industry in the securing of permanent finance. The reason given by the Indian Central Banking Committee for its proposal to establish an industrial corporation is rather curious. "A Provincial Government may in the discharge of its responsibilities for the development of industries within its territories find it necessary to ensure the supply of financial facilities to industrial concerns, and in such cases we recommend the establishment of a provincial industrial corporation working with capital initially or permanently supported by the Provincial Government."

Experience, also in India, has, however, shown that direct financial assistance by Government to industry has not always been a success. The working of the State Aid to Industries Act has proved the failure of a scheme of direct financial assistance to industry a result which seems to be one common in all cases where a system of extensive state aid in economic life has been introduced. State Aid to Industries Acts have been in operation in Madras, Bihar and Orissa, and the Punjab since 1923, and enabled Government to give financial assistance to industries in various forms, loans, guarantee of cash credits with banks, taking up shares and debentures, guaranteeing interest on capital, grant on favourable terms of land or raw material and grant of subsidies for research. Actually Government assistance was mainly in the form of loans, and in almost all cases the results have been disappointing. Of 8 lakhs of rupees lent by the Madras Government, a sum of 4 lakhs of rupees had to be written off in addition to the interest on it. Out of the nine cases that received help five resulted in a loss. The total amount actually paid or guaranteed in Bihar and Orissa was also about 8 lakhs of rupees, of which 3 lakhs became irrecoverable. In the Punjab too, the result was nearly the same. The Departments of Industries which had to recommend assistance were not really competent to judge of the credit-worthiness of the applicants. Even in the judging of the technical conditions of a business, serious mistakes occurred. A match factory in Bihar which had been liberally financed by Government had soon to wind up because of the lack of supply of raw materials. In certain other cases some of the machines recommended to be purchased by the department were found to be unsuitable, and these were handed back to the department, which soon became "a museum of obsolete machines." (Lokanathan, *Industrial Organization in India*, 1935.)

## (32) CEYLON

The Ceylon Banking Commission reporting in 1934 recommended the establishment of a State-aided bank with a capital of 10 crores of which the State should subscribe 8 crores in preference shares.

The bank's primary function should be the provision of adequate credits for agriculture, industry and commerce, and it is also required to provide financial aid of a capital nature to industrial enterprises in suitable cases.

## C.—NEAR EAST

## (33) EGYPT

With the object of assisting nascent local industries, the Government as early as August, 1922, placed L.E. 50,000 at the disposal of the Bank Misr, for credits under certain conditions, to small industries still in the development stage. The Bank which paid 2 per cent for this money, was thus enabled to make industrial loans up to a maximum of L.E. 1,000 at 6 per cent. Before any loan could be granted, the Bank had to consult the (then) Department of Commerce and Industry, and it is not without interest to note that during 1923 loans for the amount of only L.E. 14,500 were granted.

In 1932-1933 the Government has placed additional funds at the disposal of the local banks for the purpose of advances to industrialists who find difficulties in obtaining their financial requirements from other sources and have accepted a part of the risk involved thereby.

In general, loans from such Government funds at the disposal of Bank Misr were guaranteed to Government by the Bank (with the exception of the risk accepted by Government), which in turn asked for a collateral security.

The Ministry of Finance was first authorised to approve credits for this purpose up to L.E. 15,000, but the disbursement of larger loans was subject to approval by the Cabinet. Since August, 1935, every loan must be secured by a mortgage. The opening amount of L.E. 50,000 has been increased from time to time until at the end of 1936 the sums advanced had exceeded one million Egyptian pounds in total.

In the Statement of the Government's Reserve Fund, among the "Frozen Assets," Funds reserved for advances to Industry amounted to L.E. 742,763 in April 1932 and to L.E. 907,668 in April 1937.

Industries which have been helped by Government loans include the following: Spinning and weaving mills, flour mills, brick works, oil-pressing, cigarette-making, brush-making, soap-making, dairying, printing, dyeing, leather-tanning, cotton ginning, ice-making, transport and navigation, plaster and cement works, paving tiles, pottery, carpentry and cabinet making, fishing, manufacture of chemicals, iron-working and forging, preparation of foodstuffs, manufacture of photographic materials, carpet-weaving, glass-making, rice hulling, etc.

There remained the question of assisting certain would-be-industrialists of small calibre, notably graduates of the industrial schools, who have been unable to furnish the Bank with the required guarantee. In order to help such persons, a credit of L.E. 5,000 was opened at the Bank out of which loans not exceeding L.E. 100 were to be made, subject to modified conditions. The considerable demand necessitated the request by the (now) Ministry of Commerce and Industry for a further L.E. 5,000, subsequently increased to L.E. 10,000. It is stated that 163 graduates were assisted under this scheme until the end of 1936.

The Government, encouraged by these successful experiments, in 1936 decided to study similar measures taken in other countries (Japan, Rumania, U.S.A.), and took particular interest in advances against machinery and equipment, and legislation had to be introduced which enabled the acceptance of such securities.

Owing to the strong representations of the small industrialists with the Ministry of Commerce and Industry early in 1937, Government decided to advance the means for the purchase of equipment by small industrialists. The Ministry of Commerce is purchasing the machinery on behalf of the manufacturers, who repay the Ministry in instalments, with 6 per cent interest.

The success of these various experiments in the field of industrial credits, have led to the plan for an *Industrial Credit Bank*, modelled along the lines of the *Credit Agricole d'Egypte*, which should develop and rationalise the existing attempts in this field. The Ministry of Commerce and Industry had submitted a draft law to the Cabinet in 1939, for the establishment of this bank, which has subsequently been examined by a Government Committee and was expected to be established in 1941.

The Bank is to be given the task of issuing industrial credits. The Government is to take 51 per cent of the Bank's capital, the total of which will not exceed L.E. 510,000. Egyptians will receive preference in the allotment of shares. The Government is to guarantee a 4½ per cent dividend on the shares and debentures, the repayment of which is also to be guaranteed by the Government. The Government is also to grant the Bank a credit of L.E. 1,000,000, at an interest figure not yet agreed upon. This credit is not to be paid back before the liquidation of the Bank. One half of the directors will be appointed by Government, as well as the Chairman who will be also the Managing Director. Only Egyptian companies will be able to obtain loans.

The Bank is expected to advance credits to large and small industrial undertakings at a rate of 6 per cent. Credits to large enterprises are limited to L.E. 15,000, for a maximum term of 15 years, while small loans are repayable within 5 years.

It will be the duty of the bank to participate in the formation of various local industrial companies and to supervise their management. The bank will also finance the purchase of raw material, and will carry out all regular banking business such as discount of bills, etc.

The bank is proposed to establish a savings department which will be at the disposal of the small industrial undertakings and the employees and workers of all local industries.

The steps of Government for the encouragement of industry were most effectively supported by the pioneering activities of the *Bank Misr*, which together with its affiliated companies, is one of the most interesting and important manifestations of Egypt's will to independence, economic as well as political. It is a purely Egyptian concern with exclusively Egyptian capital and only Egyptian directors. The Bank's aim were defined, at the time of its establishment by Talaat Pasha Harb in 1920, as:—

"The encouragement of projects of an economic order; the creation of financial, industrial, and agricultural enterprises and their promotion until they become self-supporting; the defence of Egyptian economic interests in the same way as the foreign banks defend the interests of their respective countries."

Its object is not merely ordinary banking business but the education of Egyptians in modern economic methods, not only in finance, but

also in industry. In 1928, when the Misr Spinning and Weaving Company was established, thirty young Egyptians were sent to Belgium to learn the technique of spinning and weaving, and Belgian foremen were engaged to get the textile mills going, and to train local labour. The Bank is backed by the Government and handles the financial transactions of the municipalities as well as Government loans to industry and cotton planters (in 1937 L.E. 902,000 for Industrial Credits, L.E. 105,000 for rural Co-operative Societies). Goods imported by the Bank's subsidiaries are duty free and they also enjoy certain privileges in the matter of taxes.

The Misr Bank, founded in 1920 with a capital of L.E. 80,000, showed in its balance-sheet for the year 1938 a paid-up capital of L.E. 1,000,000, reserves of L.E. 979,917, including a fund of L.E. 177,000 for the development of national industries, and sums held in current and deposit accounts of more than 15.6 millions, including a fund of Government of L.E. 938,000 for industry. All this is "national capital." The bank has a subsidiary establishment in Paris with a capital of Fr. 5,000,000, and smaller subsidiary institutions in Syria and the Lebanon. Its first industrial subsidiary was a printing press, which is now one of the most important Arabic presses in existence. Cotton-ginning and inland water-transport were two very natural ventures which followed. Then came what has proved to be the most important of all the Misr enterprises, the Misr Cotton-Spinning and Weaving Company, in which a capital of nearly L.E. 2,000,000 is now invested. Starting in a comparatively small way, its mills at Mahalla-el-Kubra in the Delta have developed with surprising rapidity in the last few years. In 1927 it had 12,000 spindles and 480 looms working. To-day (1939) it has 110,000 spindles and 2,500 looms. Fifteen thousand workpeople are employed in the mills, which cover an area of roughly 100 acres. The machinery used is mainly British and some 30 British fitters and foremen are employed to supervise it and train the operatives. Spinning, weaving, bleaching, dyeing, and printing are done side by side.

The table on the next page shows all the enterprises which have been launched and promoted by Bank Misr.

Noms	Year	Shares Capital		Debentures	Bauxite Mine (1937)		Dividend (1936)	Notes
		1937			Current Account Credits	Per cent		
		Original	Present					
Imprimerie Mier	1922	L. E. 5,000	50,000	—	—	—	—	—
Société Mier pour l'Egrimage du Coton	1924	30,000	250,000	—	150,000	—	20	8 factories.
S.M. p. le Théâtre et le Cinéma	1925	15,000	75,000	—	—	—	—	—
S.M. p. le Transport et Navig. Fluv.	1925	40,000	150,000	—	75,000	27,000	5-6	—
Banque Mier-France	1926	—	—	—	—	—	—	—
S.M. p. la Filature et le Tissage du Coton	1927	300,000	1000,000	1000,000	190,000	800,000	24	—
S.M. pour le Lin	1927	45,000	—	—	25,000	43,000	—	—
S.M. p. les Pêcheries	1927	75,000	—	—	—	—	—	Ovens also a button factory.
S.M. pour le Tissage de Soie	1927	75,000	—	—	—	—	—	—
Banque Mier-Syrie-Liban	1929	—	—	—	—	—	—	—
Mier Airways	1932	—	80,000	—	—	18,500	—	Government subsidised.
S.M. d'Assurances	1934	200,000	—	—	—	—	—	Government subsidised.
S.M. p. la Navigation Maritime	1934	40,000	150,000	—	—	—	—	—
Mier Shipping, S.A.E.	1934	7,000	—	—	—	—	—	—
S.M. p. l'Export du Coton	1934	100,000	—	—	—	—	—	—
S.M. pour l'Industrie du Papier	1934	30,000	—	—	—	—	—	—

Among these undertakings the *Misr Airworks*, one of the most important air communications in the Near East, a joint enterprise with *Airwork Limited*, Heston; *Misr Shipping*, a travel organisation in co-operation with *Cox & King Ltd.*; and *Misr Insurance*, in conjunction with Messrs. C. T. Bowing of London, are particularly interesting as results of a British-Egyptian co-operation in the economic field. *Bank Misr*, since 1933, has become the Egyptian correspondent of Westminster Bank, the latter acting in the same capacity for the Egyptian bank in London.

*Bank Misr*, which for many years has been paying an annual dividend of 8 per cent, has succeeded in accumulating considerable reserves, part of which are set aside as a "special fund for the development of national industries," particularly those in which the concern is interested. This fund, at L.E. 275,000 in 1936, amounted to over 60 per cent of the bank's holdings of L.E. 441,000 in the subsidiary companies to which L.E. 859,000 in long-term, and a considerable amount of short-term credits must be added.

This record is sufficient to prove the invaluable services which *Bank Misr*, in co-operation with the Government, have rendered to the industrial development of modern Egypt. These merits are not diminished by the difficulties in which the Bank found itself early in 1940, when it was announced in April that the Government had taken over the guarantee for its deposits and had decided to consolidate the bank's position by financing it to the extent of L.E. 2,000,000. In accordance with this decision the bank's capital was increased to L.E. 3,000,000.

#### (34) IRAN

The new Iran (of Riza Khan Pahlevi) presents, after its neighbours Soviet Russia and Kemalist Turkey, the most interesting example of a State-directed policy transforming an undeveloped Eastern country to a higher level of economic organization. Though there is no actual plan for industrialisation in Iran, several measures of Government have initiated and or assisted in a rapid development of local industries. Among these measures, the supply of capital and credit for industry was a considerable stimulus.

In May, 1933, the *Agricultural and Industrial Bank*, formerly a section of the National Bank, was constituted as a separate institution with an authorized capital of 20 million Riials,<sup>2</sup> which amount was increased in 1937 to 30 millions. It is a State bank for the encouragement and the assistance of agricultural and industrial development throughout the country. Several branches have been opened in the various provinces of the Empire.

In Article 13 of its Rules (issued as a Law) credits were foreseen for the purchase and installation of machinery, and a few months later, an amendment authorised the bank to grant all kinds of credit to local industrial undertakings, in order to assure their sound development.

A year later, the Bank was authorised to establish, finance, and acquire the majority of shares in companies founded to aid in the development of national production.

The bank is authorised to issue debentures and to receive deposits from the public.

The capital of the bank was fully subscribed by Government, which, in addition, was authorised by law of January 7, 1934, to place with the bank a fixed deposit of an amount of Riials 50,000,000 over a period of 4 to 5 years (to be provided by the sales of products of the State domains) for a period of ten years for extending the general activities of the bank, as well as other deposits for industrial credits.

By the end of the financial year 1937-1938, Government had paid up Rls. 24,000,000 and Rls. 85,910,000 respectively on account of the share capital and deposits on which an annual interest of 2½-3 per cent is payable.

During the year 1934-1935, 57 3-years industrial credits were issued totalling Rls. 3,442,420 at a rate of 7½ per cent which amount increased to Rls. 5,613,036 by the issue of 16 new loans during the following year, and to Rls. 5,884,000 in 1937. The amount outstanding on this account was Rls. 4,080,000 by the end of 1937.

In the same time the participations of the Bank had increased from 7 to 34, amounting to Rls. 121,228,000, of which Rls. 61,245,000 were

paid-up by the end of 1937, covering a wide range of economic activities, but only a few so far of an industrial character, viz. :—

	Rls. 000 omitted		
	Capital	Subscribed by the Bank	Paid-up by the Bank
	Rls.	Rls.	Rls.
Société Anonyme des Industries Marcellées...	300	50	25
" " des Fabrics de Cuir de Khorassan ... ..	3,688	2,504	2,204
" " de Tapie ... ..	39,000	28,984	19,144
" " des Soies ... ..	4,000	2,000	2,000
" " de Tabacs ... ..	3,000	2,994	1,048
" " de Distillation d'Alcool ...	—	—	—
" " de Coton, Laine et Peaux ...	49,000	5,267	1,843

Through the *Société Anonyme Centrale*, a subsidiary, the Bank is interested also in the *Société Anonyme de Sucre et Allumettes*.

In addition to the activities of this Bank, the Ministry of Finance decided in December 1934 to instruct all Iranian banks to open wide credits against proper guarantee for Iranian industries, up to the amount of 75 per cent of their capital, to enable them to complete their consolidation.

The State has not contented itself with extending financial aid alone, but has itself taken the lead in establishing and developing new industries, for which purpose large sums have been provided in the State budget, for instance Rls. 40,000,000 in 1934-1935 and Rls. 50,000,000 in 1935-1936 for the erection of cotton spinning and weaving mills, a jar and bottle factory and coal mines. Supplementary amounts of Rls. 25,000,000 were allocated in the latter year for a sugar and cement factory.

### (33) IRAQ

Like most countries which have only recently won their independence and established "national" governments, so also Iraq tends towards the establishment of a planned economy. Various measures to promote the still nascent industries have been taken, and provision for loans to new industries is found in the Capital Works programme (cf. *Economic Conditions in Iraq*, by T. P. Sammerscale, O.T.D., 1936).

In 1936 a *Bank for Agriculture and Industry* has been opened at Baghdad. A law passed by Parliament in 1935 empowered the Government to establish this bank as a joint-stock company by a loan of £ 150,000 (Dinar) from government funds (of which £ 100,000 are so far paid up). This loan must be gradually repaid, without interest, within a maximum period of 75 years.

According to the chairman of the board of the bank, the most important obligation of the bank towards industry consists in the advancing of capital to industrialists and the financing of imports of machinery and raw materials. It is also to act as an agent for the export of the industrial produce of Iraq. At present the bank remains a semi-official government department, but the regulation foresees its conversion into a limited Company.

During the first year of operation, 1936-37, out of 228 loans totalling £ 40,024, only 3 loans totalling £ 650 were issued to industrial undertakings.

Among the first industrial schemes under consideration by the bank were a wool washing and pressing plant, a cotton ginning factory, the exploitation of asphalt deposits near Qasaiyrah, and a match monopoly.

By the end of 1939 the Bank's capital had been increased to about £ 250,000. Advances during this fourth year of operation went up from £ 40,674 to £ 90,892.

The Bank had sponsored the establishment of: (a) the Aziziyah Cotton Ginnery (investment approx. £ 25,000); (b) the Iraq Cement Co., with a foreseen participation of £ 60,000; and (c) Vegetable Oil Mill, with a foreseen participation of £ 6,000 in a total capital of £ 30,000.

After a loss of £ 1,539 in the first year, almost £ 12,000 of profits were accumulated during the following three years. For 1940 an income of £ 21,000 is expected.

### (36) PALESTINE

When, after the War the development of a Jewish National Home in Palestine, as foreseen in the peace settlement, was taken in hand, the need for a special institute for industrial credit became evident.

An Industrial Bank with a capital of L.P. 250,000, which was to function as *société d'étude*, as finance corporation and as issue-house and underwriters, was proposed as early as 1919.

But the demand for an institute for industrial credits was strongly voiced only when in consequence of the immigration wave of 1924-25 a great number of smaller and smallest manufacturing enterprises began to develop, and the lack of adequate credit facilities became strongly felt. A decision of the Zionist Congress in 1925, favouring the creation of an industrial bank with an initial capital of L.P. 25,000, was never carried out. A limited number of small and unsystematic credits by the Department of Commerce and Industry of the Jewish Agency could hardly relieve the situation.

A first serious attempt in this field was taken in 1927-28 by the Palestine Electric Company which established, jointly with Barclays Bank and some private individuals, a small special fund with the Ashrai Bank, from which two-year credits were granted to small industrial enterprises. At that time it seemed as if the plan for an industrial bank or at least a special department for such credits with the Anglo-Palestine Bank (A.P.B.) would become reality, in co-operation with the Palestine Economic Corporation of New-York (P.E.C.) Though this project was not carried out for some reason, P.E.C. started their industrial credits through the channels of their subsidiaries, the Palestine Mortgage and Credit Bank, and later through the Loan Bank.

This step of P.E.C. coincided with the initiative of the Palestine Corporation, Ltd. (P.C.), to grant credits for the purchase of and against the security of raw-materials and finished products.

Late in 1928 a conference took place between the various banking institutions concerned with industrial credit, when a division of labour was decided upon, according to which A.P.B. was to grant short-term credits (for which the rate of interest was reduced from 9 per cent to 7 per cent), P.E.C. intermediate-term credits for equipment and working capital on chattel mortgages and other securities while P.C. was to give its particular attention to lombard credits. The latter started later to grant also credits against bills and other securities and, to a limited extent, ten years' credits on industrial property at  $7\frac{1}{2}$  per cent. At that time it was believed that this first co-operation between the credit institutions would eventually lead to the joint establishment of an industrial bank.

P.E.C. credits, limited in the beginning to  $3\frac{1}{2}$  years and to L.P. 500, were later extended to eight years and L.P. 1,500. These credits, repayable in monthly instalments, were most useful in preventing a short-term indebtedness for slowly amortizing purposes.

During the first experimental period, 1928-31, 76 loans were issued, totalling L.P. 18,470 (out of 225 applications, and 121 approved loans to 95 factories). By the end of 1935, when P.E.C. stopped this activity, 254 loans had been issued totalling L.P. 55,058 (average loan L.P. 216) out of 452 applications and 294 approvals.

The Loan Bank (P.E.C.) made a point not only to investigate the business of the applicants before issuing the loan but to insist on the introduction of proper accounts and supervision during the currency of the loan.

Loans were approved by an advisory committee of industrialists and bankers (with representatives of the Anglo-Palestine Bank).

Encouraged by the success of the P.E.C. loans (arrearages were always below 5 per cent and hardly any losses were incurred), the Anglo-Palestine Bank decided, early in 1934, to grant industrial credits up to L.P. 500 for terms up to 3 years, at 6 per cent, i.e. 2 per cent cheaper than Loan Bank. While the procedure of Loan Bank was rather slow (about 4-6 weeks and often more elapsed between application and issue of the loan), A.P.B. was able to reduce this period for small credits, as they are usually well acquainted with the applicants by their regular banking business; larger loans had to be submitted to an advisory committee.

As these medium-term credits, limited first to a total of L.P. 50,000, but doubled later on, seemed sufficient for the prevailing requirements, the Loan Bank decided to withdraw from this activity in 1935.

A.P.B. has issued during 1934-1936 to 600 applicants 304 loans, totalling L.P. 97,702 (including 55 additional loans). The loans ranged from L.P. 100 to L.P. 2,000 with an average of L.P. 322. 31 out of these loans became delinquent, and in 6 cases legal proceedings were necessary by the end of 1936.

Working in close collaboration with A.P.B. is the *Palestine Industrial Bank, Ltd.*, established by the Palestine Manufacturers Association in 1935, as a co-operative credit society and converted into a joint stock company in 1938. While the Bank was helped in its early years by a long-term loan of L.P. 5,000 of the Palestine Economic Corporation, the conversion was made possible by the Anglo-Palestine Bank which took over L.P. 12,000 in Redeemable Preference Shares in order to bring the capital up to the legally required minimum of L.P. 25,000.

This bank which grants small loans to manufacturers and provides guarantees for its members for loans with other credit institutions, is collaborating together with the Anglo-Palestine Bank and the Jewish Agency in the issue of *Consolidation and Development Loans*, which became necessary during the depression 1936-38, following the political disturbances. In these loans the Jewish Agency, carrying a first risk, shares with 40 per cent, at a rate of interest of 4 per cent, A.P.B. with 50 per cent and the Industrial Bank with 10 per cent at 6 per cent. The cost of these loans, granted for 3-10 years, thus averages at 5 per cent (plus expenses).

Applications for such loans are investigated first by the Technological Bureau of the Jewish Agency, which reports on the efficiency of the undertaking and necessary improvements, and by the auditors of A.P.B., with regard to the financial aspects. Their reports and recommendations are submitted for decision to the so-called Standing Committee (for Industrial questions) on which, in addition to the above-mentioned institutions, also the Manufacturers Association is represented.

The first allocated fund of L.P. 25,000 was increased soon by the end of September, 1940, 96 loans were issued, totalling L.P. 77,500, thus averaging at L.P. 800.

In almost every case the recipient of such loans has to agree to the permanent supervision of and guidance by an auditor, appointed by the syndicate.

The above mentioned syndicate (A.P.B., Y.A./ and P. Ind B.) co-operated also in the following special funds for manufacturers who could not find accommodation elsewhere:—

(a) *Fund for Working Capital* and consolidation of short-term loans, established in 1936, granting three-year loans between L.P. 50 - L.P. 350 at 6-7 per cent.

Issued (September 30, 1940) 443 loans totalling L.P. 66,000.

(b) *Fund for Purchase of Raw Materials*, established in 1936. Loans issued until September 30, 1939: L.P. 60,000; during 1939-1940: 269 loans totalling L.P. 150,000.

(c) *Fund for Financing Army Orders*.—Established in 1940.

(d) *Fund for Small Industrial Producers*, established in 1936. Loans issued by September 30, 1940: 306 loans totalling L.P. 16,500.

(e) *Fund for Export Credits*, established in 1939 for financing exports of smaller manufacturers, the risk of which credits cannot be born by banks.

The first institution to grant long-term loans to industry was, as mentioned before, the *Palestine Corporation, Ltd.*, which per December 31, 1940, had outstanding L.P. 83,000 on account of long-term loans.

The Corporation, too, was the first bank in Palestine to acquire holdings in industrial concerns. The Corporation also insists on a regular audit of the clients' accounts, and in many cases had the audit undertaken by her own auditor.

In addition, the Corporation as previously stated, was the first to grant lombard credits on raw material stores, and again, since the outbreak of the war, credits for the execution of Army contracts.

Another institution to supply long-term credits was the *Investment Corporation of Palestine, Ltd. (Inva)*, a subsidiary to Jacob Japhet & Co., Ltd., Bankers, incorporated in 1935 with a capital of L.P. 30,000 (paid-up L.P. 20,000) for the object of granting to industrial enterprises in the form of mortgage loans medium and long-term credit.

The loans were actually granted for the purchase of machines and raw materials bought under transfer agreements from Germany, while the transferor was paid in debentures of Inva.

The first debenture issue of L.P. 20,000 (1936-1943) was for a term of 6½ years, and loans were therefore limited to the same period, and are now practically liquidated.

Long-term loans in form of transferred goods from Germany and secured by debentures or otherwise were repeatedly arranged also through other channels.

Mention should be made, too, of the *Industrial and Financial Corporation of Palestine, Ltd. (Ifico)*, which was registered in 1935 with a capital of L.P. 100,000, half of which was paid up. This institute aimed at facilitating the investment of capital in Palestinian enterprises, particularly in industry. Long-term loans were to be supplied against debentures or redeemable preference shares, which Ifico intended to bring on the market.

The depression, however, which started in 1936, prevented both Inva and Ifco from taking the anticipated development.

Stimulated by the Jewish example, Arab financial group registered in 1934 the Arab Industrial Bank, Ltd. which, however, was wound up in 1938 without having started operations.

Mention must be made here also of a number of credit institutions attached to the Labour Movement which, of late, are assisting to an increasing extent, co-operative industrial development in this country.

Like other concerns, also the co-operatives are in need of credits for capital investment on a longer term and here they experienced similar difficulties as other concerns. To overcome these difficulties a number of special funds and institutions had to be established. As early as 1930 the Merkaz Co-operatzia, the central body of the (urban) producer<sup>s</sup> co-operatives took the initiative to form the "*Keren Le Co-operatzia*." A small syndicate of the Workers' Bank, Ltd., the Central Bank of Co-operative Societies, Ltd., and the Labour Federation put aside a fund of L.P. 3,100 for loans at 8 per cent up to five years and up to 65 per cent of the proposed investment. Such loans were granted for purchase of machinery and other capital expenditure.

This first step was followed, two years later, by the establishment of the "*Kupoth Hakooperatzia Ltd.*" a fund accumulated by contributions of the co-operatives in proportion to their profits, i.e. a profit tax, and certain allocations out of the general budget of the Labour Federation. The funds thus accumulated at the end of 1940 exceeded L.P. 10,000, while bills for another L.P. 4,500 were deposited on account of such contributions. The Fund also obtained loans from various banks exceeding L.P. 10,000 and was, thus, in a position to make available credits in 1940 out of its own resources or by its guarantee to the extent of L.P. 30,000.

A more recent development in the industrial life of the country than the urban producer and service co-operative societies (which are organized in the "*Merkaz Co-operatzia*"), are the industrial undertakings which are part of agricultural communal settlements. They include factories for canning, box-making, knit-wear, shoes, various wood-working shops, etc., altogether about 36 enterprises. These enterprises, not being independent economic and legal

persons, would have found it practically impossible to obtain loans secured in a normal business way. Their development, however, was assisted by the "*Keren Hakibbutz Meukaf, Ltd.*," a fund of the large-scale co-operative settlements. This fund, which was started in 1934-35, is accumulated by taxes imposed on the members of the settlements, at present at a rate of 2 mils per member and day, which is approximately 5 per cent of their living expenses. Other taxes are levied on the turnover and the profits of the enterprises belonging to the settlements. The capital thus accumulated has quickly risen from L.P. 2,800 in April, 1935, to L.P. 28,000 at the end of 1940. Out of its own funds and credits obtained from banks and sympathisers of the communal settlement movement, the Fund was able during these six years to grant loans totalling L.P. 281,000. Though the major part of these loans was for agricultural development, industrial undertaking shared with L.P. 30,000 in the total, to which another L.P. 2,700 must be added of credits for canning and pickling. Over L.P. 12,000 alone were granted as loans in 1940, the interest rate on which is 6 per cent.

The quick growth of this Fund indicates the importance which it will attain in the near future, not only by its own strength, but also by the credits which it can obtain by its guarantee from the Workers Bank, Central Bank of Co-operative Institutions, Anglo-Palestine Bank, etc., for its members. Though this form of industrial finance by self-imposed taxation probably has no equal elsewhere, it follows in its economic implications to some extent the Russian example where industrial and agricultural expansion is financed by taxing away any available margin of profits.

The above catalogue of institutions is by no means exhaustive. Collective settlements, not belonging to the "Kibbutz" movement, have set up their own funds. The "*Keren Hashomer Hazzair*" for the finance of the settlements and enterprises adhering to this movement has accumulated in a similar way about L.P. 14,000.

There is no doubt that a large number of industrial undertakings are under-financed. Their own capital is frozen in buildings and equipment, and they cannot operate on an economic scale because of lack of working capital. And it is natural that in a new country, without industrial tradition and experience, a considerable part of the investment capital is lost in initial, unforeseen expenses and mistakes, which it is difficult to replace afterwards.

In many cases, too, enterprises were started by immigrants who owing to capital export restrictions in their country of origin could bring only a limited capital with them which afterwards proved insufficient to operate their undertaking. In all these cases short-term credits from various sources and in various forms were used to replace the required capital, which often only added to the existing difficulties. There is, therefore, normally a wide field for long-term credits to consolidate these short-term liabilities.

This situation explains also the continued discussion on the subject of these credit requirements. An attempt was made in 1935-36 by the American Economic Committee for Palestine to obtain more exact data by an investigation in the financial and credit situation of a number of representative enterprises. The attempt, however, failed owing to the disturbances which broke out meanwhile.

It is estimated that prior to the outbreak of the war approximately L.P. 500,000 would have been required for such a consolidation in order to secure a smooth working of Palestinian industry on a sound basis. The fuller exploitation of the country's industrial capacity during the war has however, enabled most concerns to consolidate their financial position.

It has been shown in the foregoing that various institutions are working in the field of medium and long-term industrial credit and it appears that by closer co-operation between these institutions better results could be obtained. Some years ago (1934) a scheme has been proposed for a Central Bank for Industry and Artisanate to be established by co-operation of the previously mentioned financial groups, which would operate through the existing commercial banks and credit societies. Another scheme considers the establishment of an Industrial Investment and Management Trust. It is expected that the requirements of post-war reconstruction will force steps to be taken towards the realisation of such a scheme.

### (37) SYRIA AND LEBANON

The absence in Syria of an institution for supplying credit and capital to industries has been frequently complained of as being the most serious obstacle in the way of any appreciable industrial development.

The little capital that is found in the country is often not available for industry, because of the absence of an effective investment credit organization. In many cases industrial enterprises were financed by the capital of returning emigrants. In the absence of sufficient capital locally, resort will have to be made either to foreign capitalists or to the frequently prosperous Syrian and Lebanese emigrants abroad, mainly in Egypt and the Americas, who might be induced to invest in national industrial undertakings, should an adequate apparatus become available to divert this capital in the desirable channels.

For some time there has been a discussion of the need for establishing an industrial bank in Damascus with a view to stimulating the creation of new industries and encouraging development of existing ones. With this objective the Prime Minister of the State of Syria issued a decree, on June 7, 1929, authorizing the Minister of Agriculture and Commerce to form an industrial bank with a capital of 500,000 Syrian pounds, part of which was to be furnished by the State. A commission was appointed to study this project. The commission's report was in favour of establishing the bank. The Ministry endorsed the report and sent the plan of organization to the Delegate of the High Commissioner in Damascus for approval. The project has not yet materialized.

As Professor Himadeh of Beyrouth University states,\* there seems to be little hope that modern native industries will be able to secure investment credit from either foreign or native banks, and it is more doubtful still whether such credit can be secured directly from the public. There are two reasons for this. In the first place, modern native industries are of recent origin and do not as yet enjoy the full confidence of the banks and the public. In the second place, industrial banking is not known to most of the native banks and is not aimed at by the foreign commercial banks. The land-credit company which is undertaking industrial banking has limited its finance to foreign enterprises most of which are public utilities.

In view of this situation, it is suggested that in the states where industry has made a good start, i.e. in the State of Syria and the Lebanese Republic, the government should take the initiative in providing the necessary capital for industry. It is suggested that each of these

\* cf. *The Monetary and Banking System of Syria*, Beyrouth, 1935.

states should establish an industrial financing corporation with branches in the industrial centres. In each case the industrial corporation should secure its share capital as far as possible from the public, including the native banks, the government taking only such portion as cannot be raised by public subscription. The capital of the corporations should be supplemented by debenture issues guaranteed by the government as to principal and interest and by long-term deposits, provided that the period of loans advanced from such deposits corresponds with their term.

The aims of these corporations should be (a) to supply the investment capital needs of the industrial concerns which have a promising future, (b) to transform the individual and partnership industrial undertakings into joint-stock form, (c) to amalgamate or consolidate different industries producing similar or complementary articles, (d) to bring about or participate in the promotion of new industries which will be of benefit to the public, (e) to issue or take over for their account the shares of such newly created companies and (f) to direct the capital of the country, by authority of their recommendations based upon thorough investigations, towards industries which offer prospects of reasonable profits.

A special law should be enacted for the regulation of these financing institutions.

#### (37a) LEBANON

The President of the République on March 24, 1939, has authorized the Banque de Syrie et du Grand Liban to establish a limited company (of French Nationality) with a capital L.S. 100,000, divided into 4,000 shares of L.S. 25 each to be styled " Société de Crédit Agricole et Industriel du Liban." Its seat will be at Beyrouth.

The company will mainly engage in the granting of short-term credits up to one year, and medium-term credits up to 5 years, to farmers, manufacturers and hotel-keepers, secured by a mortgage or other acceptable security.

The company was reported to have started operations on April 1, 1939.

Half of the share capital was reserved for subscriptions by Lebanese nationals.

## (38) TURKEY

Next to Russia, the most interesting example of a planned industrialization is found in Turkey, where the first Five Years Plan, 1934-39, has been followed by the Second Four Years Plan 1939-1942, and the Three Years Plan for General Development.

The plans foresaw the development some 35 undertakings in the textile, iron, glass and paper and mining industry, involving together a State expenditure of L.T. 45,000,000. The aim is to establish an equilibrium in the Foreign Trade Balance, but the "Etatism" is not to replace entirely private initiative, but to enter such positions where private initiative would fail or would not be able to serve the public interest. As a very important part of its economic schemes the Government created adequate banking and credit institutions which laid down definite rules to promote industrial development.

Already, in 1925, a special banking institute was founded for promoting industry, named "Banque de l'Industrie et des Mines," then being in the official ownership of the State. To this bank were transferred four larger industrial enterprises once belonging to the old Turkish Government:—

- (1) The shoe and boots factory at Beykoz with a capital of L.T. 2,716,000.
- (2) The Textile and Clothing Wool Mill of Hercke, with a capital of L.T. 1,418,000.
- (3) The Feshane Wool Mill with a capital of L.T. 890,000.
- (4) The Beykyskoy Textile Factory with a capital of L.T. 480,000.

The valued output of these first national establishments amounted to L.T. 8,000,000 in 1932. Since this year the Bank began to participate in various new enterprises, and in 1933 it held shares in 16 industrial undertakings of various branches. Between 1926 and 1932 the assets of the Bank increased from 6½ millions to about 9 millions of L.T.

In the beginning of 1933 the Bank was transferred to the "Office of Industries" and absorbed by the latter subsidiary, the "Bank of Industrial Credit." But this was only a temporary development. Both institutes were amalgamated in June, 1933, in the new, and what became the most important credit institution of modern industrial Turkey: The Sumer Bank.

This bank was set up with an authorized capital of L.T. 20,000,000, which already in 1934 was increased to L.T. 62,000,000. The bank is totally owned by the Government and is to be the official instrument for the execution of the Five Years Plan. As a trustee of the State's business the institute has to supervise the industrial development, the industrial credit and the technical production.

It has undertaken particularly the following tasks :—

- (1) Exploitation of the undertakings transferred from the Industrial Credit Bank and State Office for Industry.
- (2) Elaboration of industrial projects and schemes in order to create and administer new industrial enterprises.
- (3) Participation in industries, in the production of which the State is specially interested.

The Bank has to give preference in this respect to enterprises in the following grades of priority :—

- (a) Industries using local raw materials the production of which cannot yet supply local requirements.
- (b) Industries refining local materials into export products.
- (c) Industries using raw materials not yet available in the country but which may be produced by new industrial establishments later on.
- (d) Finally enterprises using materials which are not available in the country and cannot be produced locally, but being necessary for the country's industrial development.

The Bank, thus charged with public functions, has likewise to act as Société d'Etudes for such industrial schemes which are to be carried out with Government funds, and afterwards has to establish and to administer such factories. The Bank has also to establish tradeschools for the training of foremen and skilled labourers for its enterprises; it has to take care of the training of engineers, if necessary, even at foreign universities.

Of the authorized capital of L.T. 62,000,000 more than 50,000,000 are already paid up, in order to enable the bank to carry out its programme under the various Plans for Industrialisation.

The Bank may issue bonds and debentures up to 15 years and up to L.T. 20,000,000, and the Ministry of Finance is authorized to grant a State guarantee on such securities. It also received a loan from the Ottoman Bank, amounting to L.T. 15,000,000.

Any dividends made on the operations of the Bank must be used for the increase of the paid-up capital, until this is brought up to its full nominal figure. Within the framework of the first Five Years Plan the Bank has been in receipt of annual allotments from the State Budget of L.T. 6,000,000 for the development of industrial projects approved under the Plan.

Apart from the previously mentioned four factories transferred to the Sumer Bank in 1934, the Bank owns the following enterprises:—

	Capital (L.T.)
(1) Textile Works of Kayseri (1935) ... ..	5,600,000
(2) Eregli Textile Works (1936) ... ..	3,500,000
(3) Nazilli Textile Works (1935) ... ..	4,520,000
(4) Merino Wool Mills (1937) ... ..	3,500,000
(5) Gemlik Artificial Silk Mills (1937) ... ..	2,000,000
(6) Bdana Textile Works (1938) ... ..	1,964,000
(7) Banyan Woodyarn Mills (1938) ... ..	205,000
(8) Marash Rice Cleaning Plant (1938) ... ..	100,000
(9) Toysa Rice Cleaning Plant (1937) ... ..	102,000
(10) Attar of Rose Factory, Isparta ... ..	150,000
(11) Izmir Paper and Carboard Mills ... ..	3,300,000

The Sumer Bank also owns, jointly with the two other great industrial banks (the Is Bankasi and the Eti Bank) :—

	Capital (L.T.)
(1) Turkish Sugar Refineries ... ..	1,330,000
(2) Usak Cigarette Factory ... ..	398,050
(3) Keeliborlu Sulphur Works ... ..	145,000
(4) Isparta Spinning Mill ... ..	110,000
(5) Electrical Works of Trabzon ... ..	57,220
(6) Porcelain Factory of Kunay ... ..	400,000
(7) Attar of Rose Factory at Keeliborlu ... ..	650,000
(8) Sugar Factory at Anadolu ... ..	735,000
(9) Malatya " Tesebutari Sinayic " ... ..	133,330
(10) Ceramik Mili Kutahaya ... ..	25,000
(11) " Azmia Mills " Aksaray ... ..	25,000
(12) Yute Factory ... ..	2,650,000

According to the Report of the Chairman of the Sumer Bank on the occasion of the Izmir Fair in August, 1938, the following "Sumer" concerns were then in construction and were expected to start production in the following years:—

	Capital (L.T.)
(1) A second Paper and Cardboard Mill at Izmir... ..	1,600,000
(2) Caustic Soda Factory at Izmir ... ..	1,400,000
(3) Cotton Factory at Malatya ... ..	—
(4) Cellulose Factory at Izmir ... ..	1,150,000
(5) Cotton Factory at Adana ... ..	—
(6) Artificial Silk Factory at Izmir ... ..	500,000

The Sumer Bank thus owned 15<sup>6</sup> factories with a capital of more than L.T. 30,000,000, and participated in further 12 industrial establishments with a total capital of about L.T. 6,500,000. Apart from this, it owned or participated in 6 factories then in construction and expected to start production in the summer, 1939.

The total participations of the bank show the following development

	L.T.
1933 ... ..	15,000,000
1934 ... ..	17,000,000
1935 ... ..	29,000,000
1936 ... ..	42,000,000
1937 ... ..	48,000,000

Since 1938, the Bank confined itself to the promotion of industry by the provision of credits for the construction of premises and the purchase of machinery and raw-materials, to the issue of debentures for industrial undertakings and to all kinds of banking transactions for industries and affiliated enterprises.

The next important institution having a great share in the industrial development and the realization of the industrial plans is the Is Bankasi (or Banque d'Affaires) which, established in 1924 by semi-public initiative with a capital of L.T. 1,000,000, obtained its capital largely from private sources. It has since been increased to L.T. 5,000,000. The Is Bankasi which in the first years of its existence played a leading part in the savings movement has grown into the largest savings and deposit bank of Turkey, and the deposits have risen from L.T. 2,474,446

in 1924 to L.T. 67,431,000 in 1937, while savings stood at L.T. 30,740,000. Its main object is the accumulation of private capital for the use in the national economic reconstruction. The Bank, owing to its more private character, is not bound by the principles which the Sumer Bank has to consider in granting credits to industry or in participating in industrial enterprises. It has notably contributed to the industrial development by participating in the following undertakings:—

- (1) The Textile Mills at Malatya (with Sumer Bank).
  - (2) The Bottle and Glass Factory at Pahsabaesi
  - (3) The Turkish Sugar Refineries.
  - (4) The Sugar Refinery at Anadolou and other smaller refineries.
  - (5) The Keciberlu Sulphur Works
  - (6) The Porcelain Factory at Kumery
  - (7) The Attar of Rose Factory at Keciberlu
- } (with Sumer Bank).

The Bank, apart from this, is also interested in the Coal Basin of Zonguldac and the semi-anthracite factory there, as well as in the Is Ltd. and Pumeck Coton Is, which organise the export of textiles and cotton yarns and goods, apart from various holdings in cement, silk, and weaving factories and an insurance company ("Anadolou").

The total participations of the Is Bankasi increased from L.T. 954,000 in 1924 to L.T. 43,000,000 in 1937.

The third establishment which has a certain importance for the industrial development of the country, is the "Eti Bank," established in 1935 for the special purpose of taking over mines owned by the State and promoting the mining and iron and steel industry in Turkey. Because of the large coal and iron-manganese ore deposits in the northern part of the country along the Black Sea coast there are good chances for the development of such an industry, all the more so in view of the total lack of such industry in the whole Near and Middle East.

The nominal capital of the *Eti Bank*, held by the Sumer Bank and the Government, amounts L.T. 20,000,000, which is according to its statutes to be contributed by the State from its ordinary annual budget in corresponding instalments. L.T. 3,000,000 were paid up by 1938. The Bank owns mainly the Karabuk Iron and Steel Works, which started production in 1939 and are managed jointly by the Eti and the Sumer Bank. The investments in these works amount to L.T. 22,000,000.

The Eti Bank manages, apart from this, the following branches of mining industry :—

- (1) The Coal-Mines at Zonguldac (together with Is Bankasi).
- (2) Société d'Heracleé at Ereğli, Koclu and Asmara.
- (3) The Lignite deposits of Degirmensaz.
- (4) The Lignite deposits of Tovsanlı.
- (5) Société des Mines de Cuivre d'Ergani (5/6, the rest by Is Bankasi).
- (6) The Copper-Mines at Kuvarshane and Arsin.
- (7) The Chrome Ores at Gulemma and at Elzig.
- (8) The Iron and Manganese deposits at Divrik (starting 1939).
- (9) The Zinc, Lead and Arsenic Mines of Baya Keraidin and some smaller mines in northern Anatolia of Meershaum and Arsenic.

Besides these larger undertakings there must be mentioned the Agricultural Bank with a capital of L.T. 30,000,000 which shares to a considerable extent in sugar refineries, together with Is Bankasi and the Sumer Bank. This institute also participated to a smaller extent in the tobacco industry.

The "Banque Immobilière" is a semi-public institution which finances to a considerable extent industrial buildings thus enabling manufacturers to keep their funds liquid for working capital instead of immobilizing them in buildings. The nominal capital of this bank is L.T. 20,000,000.

Mention must also be made of the Central Bank's medium and short-term credits to industrial undertakings.

Among foreign institutions which have been of importance for the industrial development, the American Turkish Investment Corporation, with a capital of \$10,000,000, must be mentioned, as well as the large U.S.S.R. Central Bank ten years credits in form of industrial machinery of \$8,000,000. Other countries were hardly of minor importance; in this field Germany had tried during the last years to increase her influence by granting credits to a total of *Re.* 150,000,000 for imports. However, after the Anglo-Turkish-French agreement over Alexandretta, the influence of the Western powers increased. Since 1938 Great Britain has granted loans of £ 19,000,000 to the Turkish Government, *viz.* £ 10,000,000 to the Turkish banks for industrial development, £ 6,000,000 for rearmament and lately another £ 3,000,000 for the Karabuk Steel Works.

A reorganization was planned to take place in 1939 under which the administration of industries, hitherto in the hands of the Sumer Bank, would in future be under a special management, the Bank to continue purely as a credit institution.

The sugar industry, hitherto managed by a subsidiary of the banks, is to be turned into a Governmental industry.

According to other reports the Sumer and Eti Bank were to be liquidated altogether, and after approval of the draft law by the National Assembly the various wool, cotton, artificial silk, leather, cellulosis and paper industries will be under one management with the State mining and sulphur plants.

#### (38a) HATAY

A financial institution was reported in 1939 to be established shortly with the aid of Turkish capital for the promotion of Agriculture, Industry and Trade.

### D.—FAR EAST

#### (39) CHINA

The Chinese Government has tried to render assistance to industry through various channels.

The *Bank of Communications* at Peking, an important Government institution, originally established for facilitating railway construction, in 1928 obtained a charter to operate as an industrial bank. Its new functions included the issue and redemption of bonds on behalf of industrial undertakings; the handling of revenue and expenditure of transport enterprises, and the promotion and development of industry as well as assistance to the Treasury. The Bank, which has over 90 branches in various parts of the country, has the right of issue, until a Central Reserve Bank will take over the monopoly, and the circulation of its notes is second only to that of the Bank of China.

The *Bank of China*, the main public bank, issued loans to domestic industry to the extent of:—

1931	31 million Dollars.	
1932	38    "    "	12·1 per cent of all credits.]
1933	42    "    "	13·2 per cent of all credits.

In 1933, loans to cotton mills were most important, accounting for 56 per cent of the industrial credits, the flour industry followed with 12½ per cent and the silk reeling and weaving industry with another 10 per cent.

Other industrial banks for the assistance to industrial and mining undertakings have been established with or without Government capital. Among them are *The Agricultural and Industrial Bank* and *The Manufacturers' Bank of China*. The latter was established in 1929 at the instance of Government, which contributed 2 out of 5 million dollars of the paid-up share capital (authorised, \$ Ch. 20,000,000). The Board is composed of private business men. While it engages in commercial banking, its main object is investment banking, assistance to local manufacturers and generally the finance of industrial enterprises.

On the whole, collaboration with private finance in the establishment of new undertakings was part of the Government's declared policy.

A special feature is the financing of the foreign industrial enterprises in China, which business is partly in the hands of the local foreign banks. The latter include a number of banks specially constituted for Far Eastern business (of which the Hong Keong and Shanghai Banking Corporation is the largest, with balance sheet reserves amounting to the equivalent of £ 7,000,000), as well as the major branches of leading banks in Japan, U.S.A. and other countries, which though primarily concerned with exchange and bill operations, employ a part of their great local resources in industrial enterprise.

The following is a list of banks, indicating in their names industrial banking activities, but on whose operations no information is available:—

## OTHER INDUSTRIAL BANKS

	Incorporated	Head Office	Branches	Authorized Capital	Paid up Capital 1925
				Dollars	Dollars
Chekiang Industrial Bank ... ..	1908	Shanghai	—	2,000,000	1,800,000
Salt Industrial Bank ... ..	1915	Peking	—	10,000,000	5,500,000
National Industrial Bank of China	1919	Tientsin	—	20,000,000	2,000,000
Industrial and Commercial Bank ...	1921	Hongkong	—	5,000,000	1,100,000
Industrial and Commercial Bank of Shanghai ... ..	1918	Taiwan	—	2,000,000	650,000
Dai Wen Industrial and Agricultural Bank ... ..	1918	Peking	—	1,000,000	650,000
Hangchow Industrial and Agricultural Bank ... ..	1918	Hangchow	—	200,000	100,000
Chekiang Silk Industry Bank ... ..	1921	Shanghai	—	2,000,000	690,750
Industrial Development Bank of China ... ..	1920	Peking	—	5,000,000	2,391,175
Cotton Industrial Bank of China ...	1923	Shanghai	—	1,000,000	500,000
Chung Yuan Industrial Bank ... ..	1922	Hangchow	—	500,000	250,000

## (40) JAPAN

The credit requirements of industry, as different from those of commerce, were first recognized by Count Matsukata as early as 1882. But in a memorandum on the then proposed Bank of Japan, when discussing the need for an industrial bank, he admitted that conditions were not yet opportune for its establishment. It was only with the increased industrial activity after the war of 1894-95 that Government felt the necessity of providing institutions for making loans on immovable property at low rates of interest.

The law for subsidising the Agricultural and Industrial Banks was promulgated in April, 1896, and two years later, in 1898, 3,740,000 yen of the Chinese indemnity were employed in the purchase of the Hypothec Bank's debentures, to make that sum available to industry. These Agricultural and Industrial Banks, 25 in number, distributed throughout Japan proper and since 1928 combined, and centered around the Hypothec Bank of Japan, were designed to raise money by the issue of debentures for long-term loans, on security of immovable property.

A few years later, in 1902, the Industrial Bank of Japan was established with an authorized capital of 10 millions yen (one quarter paid up) for advancing long-term funds to industry principally on the security of movable property, such as bonds, debentures, shares mortgages and such like, but also on land and buildings. It was followed in later years by the establishment of the Industrial Banks of Chosen (Korea) and of Taiwan (Formosa) and in Manchuria of Choshun and of Antung.

In order to assist the Industrial Bank of Japan in getting a start, the Government undertook in 1902 to guarantee a 5 per cent return on the bank's shares for the first five years. According to the Japan Yearbook of 1924-1925 the Imperial Government guaranteed "profits for investments made abroad, within the limit of 100,000,000 yen."

Apart from its function of aiding in the distribution of loanable capital within Japan, the Industrial Bank was designed to bring foreign capital into the country at favourable opportunities. Its first external loan was an issue of £2,000,000 of 5 per cent debentures floated in England and France in 1908 at 97. In August, 1924, an issue of 6 per cent notes was offered in New York at 99½ to mature in 1927. The amount of the issue was \$22,000,000, bearing the guaranty of the Japanese Government.

Not only has the Industrial Bank issued its own external debentures, but it has also assisted in the flotation of other Japanese loans abroad. Thus, it issued in London the sterling debentures of the South Manchurian Railway of 1907, 1908, and 1911. In 1926, the Industrial Bank aided in the issue of a £6,000,000 loan in London for the city of Tokyo, and a loan of \$19,740,000 in New York for the city of Yokohama.

Early in the history of the Industrial Bank foreigners came to own no small portion of the bank's shares. The Japan Yearbook of 1924-1925 stated that foreigners held 7,500,000 yen of the Industrial Bank's capital.

Among the Bank's activities in foreign countries in recent times was the participation in the formation of the Bank for International Settlements at Basel. Since the Bank of Japan was not permitted by its act and by-laws to participate in that institution, the Industrial Bank represented Japan.

Prior to 1927 an application to the Industrial Bank for a loan was judged more by the future possibilities of the industry in question and the business reports of the individual company than by the security offered. Late in 1927, it changed its loan policy by giving more attention to security values and also to smaller-sized business units.

In 1928 the Bank endeavoured to advance funds to smaller industries, these loans amounting to 28,487,000 yen and the number of borrowers to 1,764 at the end of the term. Emergency loans advanced with a special lower rate of interest for commercial and industrial business enterprises aggregated 1,635,000 yen and the borrowers numbered 763.

The Industrial Bank's loans to small borrowers underwent a considerable expansion in 1929, when advances to medium-sized and small industries totalled 35,972,000 yen in 2,882 accounts. The maximum advance was given as 100,000 yen. These advances were secured by factories, machinery, and real estate.

Ever since the earthquake of 1923 the Government has followed a policy of extending aid to small borrowers through the Industrial Bank. For small loans, the Industrial Bank maintains a separate account entitled "Special fund for petty merchants and manufacturers."

After the depression of 1927, when small borrowers experienced difficulty in obtaining accommodation, the Deposits Bureau decided

to loan 50,000,000 yen to such borrowers through the Industrial Bank, the Hypothec Bank system, and the Co-operative Societies' Central Bank. Through the latter organization assistance was extended to the local credit associations. Loans were limited to 3,000 yen, bearing interest from 5 to 6½ per cent. The first allotment under this arrangement was made in March, 1928, and totalled 14,600,000 yen. The second was 12,737,000 yen and the third 11,199,000 yen.

After the 1927 panic, small borrowers finding increasing difficulty in securing financial accommodation, the efforts of the Industrial Bank of Japan to fill the need for such assistance were intensified; the bank was not only extending its branches in rural districts, but would reduce the size of the minimum loan from 300 to 200 yen.

The Industrial Bank of Japan depends chiefly on the issue of debentures as a source of loanable funds. In a revision of the Industrial Bank Law in 1939, the minimum issue of debentures was raised from 500-1,000 millions of yen.

At the end of 1928 the Industrial Bank of Japan, according to its balance sheet, had outstanding debentures totalling 273,000,000 yen.

The shares of the Industrial Bank of Japan have a par value of 50 yen. Prices for 1918 to 1927, inclusive, ranged from as high as 94 yen in 1920 to a low of 30.40 yen in 1927. The price of the shares has declined almost uninterruptedly since 1922, the high in 1926 being 51 yen and in 1927, 47.20 yen. The Imperial Household Department held 22,725 shares of the Industrial Bank in 1929, being the largest shareholder.

The Bank is under the supervision of the Minister of Finance, who appoints controllers. The president and vice-president are nominated by the Government from among shareholders holding at least 200 shares.

The rise in the importance of the Industrial Bank of Japan is one of the most striking illustrations of the growth of centralized control over investment. This semi-official Bank to which the Government has long granted special privileges and over which it possesses large powers of supervision had before the war a paid-up capitalization of 50 million yens, and was empowered to raise funds, out of which it could make loans to industry, by issuing debentures to an amount equal to ten times its paid-up capital. Shortly after the

present war with China began, the Bank was authorized to issue further debentures guaranteed by the State up to 500 million yens, so as to be in a position to extend its advances to the munitions industries. In April 1939 its capitalization was increased fourfold—to 200 million yens—and this carried with it the power of making a corresponding increase in its ordinary debenture issue; while the supplementary issue of officially guaranteed debentures was increased to 1,000 million yens. The Bank has now become the central financing organ for industry and thus it has, indeed, almost a monopoly of wartime industrial financing.\*

#### (41) PHILIPPINE ISLANDS

An Agricultural and Industrial Bank was scheduled to open in 1939-40. Industrial development was hitherto promoted by the National Development Company, the capital of which was increased in 1937 from P. 9,000,000 to P. 15,000,000, which owns or controls, among others, factories for cement, rice milling, oil pressing, canning, cotton spinning and finishing. It includes in its program also the organization of hand weavers for the marketing of their production.

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\* *The Capital Adjustment Law, 1937*, intends to force the country's savings into certain desired industries, such as the heavy industries and certain favoured export trades.

Under this Law industrialists have to obtain official permission before they can raise capital for establishing, extending or improving their plants. Banks and investment concerns were required to set up machinery for controlling the underwriting of new capital issues.

Three classes of trades were distinguished in the new administration of the Law. The first consisted of the heavy industries (metal, mining and engineering) and the munitions trades in general. Companies engaged in these industries were freed from many previous legal restrictions on the issuing of fresh capital of debentures, provided official sanction was obtained, and the Industrial Bank of Japan and the Hypothec Bank of Japan were allowed to increase their loans to such companies beyond the limit set by earlier legislation. Cheap credit from other sources was also made available to these firms. In the second class were the "non-essential" industries, such as the textile industries, and these were practically debarred from raising fresh capital during the emergency period. The third group of industries consisted of those not specified under the first two heads, and applications from them for capital extensions were to be considered on their merits.

## E.—AMERICA

## (42) U.S.A.

We have seen elsewhere in this Survey how the apparently smooth working of the credit supply to industry in U.S.A. was suddenly interrupted during and after the Great Depression. That bankers, as it was asserted, like the rest of the population, are affected by the prevailing spirit of optimism or pessimism, seems to have been borne out particularly in U.S.A., where, in addition, the fear of bank examiners seems to have led to unwarranted pressure being brought to bear on industry for the liquidation of loans.

The actual position was brought to the attention of the authorities by an investigation in 1932 by the National Industrial Conference Board on *The Availability of Bank Credit*, under the direction of Dr. Ralph A. Young. This was followed up in 1935, after the first relief measures of the Reconstruction Finance Corporation and the Federal Reserve Board, by the investigation and *Report on the Availability of Bank Credit in the Seventh Federal Reserve District* by Ch. O. Hardy and J. Viner, at the instance of the U.S. Treasury, and the *Survey of Reports of Credit and Capital Difficulties*, undertaken at the instance of the Department of Commerce. These three reports based on factual material, are probably the most valuable of the numerous publications on industrial credit in various countries.

All these reports show that the incidence of bank-credit liquidation has fallen more heavily on small concerns.

The rapid deterioration of the economic situation in 1933, induced the Federal Government to take special measures for the aid of industry. On September 14, 1933, the Reconstruction Finance Corporation announced a twofold program for its participation in making loans to industry. First, loans were to be made by the Reconstruction Finance Corporation to banks, trust companies, and mortgage-loan companies at 3 per cent interest for any part of 6 months, for the purpose of relending to industry at not more than 5 per cent to aid it in meeting requirements under the National Recovery Administration. Applicants for such loans had to agree to relend the proceeds to finance the purchase of materials and payrolls and to assist merchants and others who were especially affected by the National Recovery Administration program.

As the applicants had to assume final responsibility for the loans that they made with these funds, the plan amounted to the creation of a new central rediscounting agency alongside the Federal Reserve banks. Since the plan was limited to loans of such maturity that they were readily acceptable by banks, and in view of the great abundance of uninvested funds in the banks, the provision of another rediscounting agency with a higher rate than that of the Federal Reserve banks was of little service.

The second scheme provided for the utilization of local mortgage companies and the organization of new ones to supplement bank lending facilities by making sound slow loans on mortgage security, with the funds obtained from the Reconstruction Finance Corporation. Under this plan, industrial concerns were encouraged to join themselves into co-operative local groups to seek loans from the Reconstruction Finance Corporation. The terms of such loans to mortgage loan companies or other eligible applicants included interest at 4 per cent, a maturity of not more than 3 years, and a stipulation that the funds would be released at not more than 6 per cent. To obtain such loans would-be borrowers had to demonstrate their ability to liquidate them, out of profits, through the liquidation or sale of assets, or by refunding. The plan was not specific as to the purpose for which such loans could be used, but indicated that loans to finance repairs would be considered whereas loans to provide new construction or for real estate development projects would in general not be granted. The loans were to be "fully and adequately secured." Although the type of security was not definitely stated, a mortgage-loan company was defined as a company having charter power to make loans secured either by real estate or by chattel mortgages, so that there was a clear implication that mortgage security would be required.

This plan of lending through mortgage-loan companies was a transitional measure bridging the gap between the period when the Reconstruction Finance Corporation was regarded as an agency for salvaging distressed financial institutions and the era of direct lending to industry. In form, the financial middleman was preserved as the law required, but the mortgage companies organized under the plan had no other function than that of obtaining loans from the Reconstruction Finance Corporation and had no significant amount of capital except what was subscribed by borrowers and paid by them out of the proceeds of

the loans received from such mortgage companies. In practice, the Reconstruction Finance Corporation looked for security not to the mortgage company but to the individual borrower.

The plan was not a success. Many companies which were organized after much effort and expense either obtained no loans for their members or so few that they could not justify their own existence. Up to October 31, 1934, 179 loans to mortgage companies aggregating \$18,813,675 had been authorized, of which authorizations for \$9,091,475 were cancelled, but the applications withdrawn or cancelled were subsequently re-authorized under the later program of direct loans to industry.

*The Direct Loan Act.*—The next step was the provision for direct loans to industry and commerce without the intervention of private financial institutions, a step made possible by the passage on June 19, 1934, of an act amending both the Federal Reserve Act to authorize the Reserve banks to make loans to established industrial and commercial firms as well as the Reconstruction Finance Corporation Act to provide for direct loans by that agency.

The motives which led to the apportionment of almost \$280,000,000 for such industrial loans are seen in the official statement made by the F.R. Board on June 28, 1934, to the press, in which it was said: "The need for this character of loans has become increasingly apparent in recent months. Many small industrial establishments have suffered severe capital losses during the depression and are now short of working capital. A survey made by the Federal Reserve Board through the Reserve banks and the chambers of commerce showed that this condition is widespread and is not being met by existing facilities. Small industries find it difficult at present to obtain their requirements of working capital through the capital market, while commercial banks and other financial institutions, in many cases, are hesitant about undertaking on their single responsibility the risks involved in making relatively long-time loans for working capital purposes."

The Act of June 19, 1934, authorized the F.R. banks to co-operate with local banks in making such loans for working capital purposes to established industrial and commercial enterprises, provided the loans are made on a reasonable and sound basis, and have maturities not exceeding five years, but in exceptional circumstances, to make such loans direct. The power to make these advances has been vested in each Federal Reserve

bank, and in order that the operation might be expedited as much as possible the Board of Governors of the Federal Reserve System has placed no restrictions upon the twelve Federal Reserve banks other than those set forth in the law itself. Each Reserve bank has sole and final authority to act on all applications submitted to it from industrial and commercial enterprises in its district.

The Act of Congress giving the Federal Reserve banks power to make this type of credit available authorizes the sum of \$ 280,000,000 as the total amount of funds that may be outstanding at any one time in the form of loans, advances, commitments, purchases, and discounts.

The Act of Congress authorized the F.R. banks, to "discount obligations for, purchase obligations from and make loans or advances on the security of such obligations direct to, any bank, trust company, mortgage company, credit corporation for industry or other financing institution, in its district" under the condition:—

- (1) that the commitments must have been entered into for the purpose of obtaining working capital;
- (2) for periods not exceeding five years, and that each financing institution should obligate itself for at least 20 per cent of any loss which may be sustained by the Reserve bank by financing the respective transaction, i.e. the F.R.B. advances 80 per cent of the required amount to the applying financing institution.

The financial institution, if not presently short of funds, can obtain from the F.R. bank a commitment to take over the loan on stated terms at any time within the currency of this commitment.

Applications of industries whether submitted through a financing institution or in exceptional circumstances directly, are to be approved by Industrial Advisory Committees, established in each F.R. District, which consist of five members "actively engaged in some industrial pursuit." The members are to be appointed for terms of one year.

The rate of interest, though subject to the approval of F.R. Board, changes from district to district. On September 1, 1934, the following rates were current:—

	per cent
Direct to industrial organisations ... ..	4 - 6

To financing institutions :	per cent
On portion covered by 20 per cent guarantee ... ..	3 - 5
On remaining portion ... ..	3½ - 6
Commitment to make advances .. ..	½ - 2

The loan maturities, ranging from 1 - 5 years averaged between 2-3 years. All of the Reserve banks reported that repayments have been quite satisfactory.

Similar were the terms and conditions of the loans, offered to industry, by the Reconstruction Finance Corporation directly or in co-operation with F.R. banks or other banks or lending institutions, or by the purchase of participations in loans, viz. :—

- (a) The applicant must have been established in business prior to January 1, 1934.
- (b) Adequate security must be provided.
- (c) The maturity of the loan must not exceed five years.
- (d) The applicant must be solvent at the time of disbursement of the loan.
- (e) Credit at prevailing bank rates for loans of the character applied for must be not otherwise available at banks.
- (f) Such loans may be made only when deemed to offer reasonable assurance of continued or increased employment of labour.
- (g) The aggregate of such loans to any one applicant, or the participation of Reconstruction Finance Corporation therein, shall not exceed \$ 500,000.
- (h) Such other terms, conditions, and restrictions as Reconstruction Finance Corporation may determine.

The loans were not intended for payment of existing indebtedness, for new construction, to finance consumer purchases and instalment sales, to finance imports or exports, nor for expansion into new fields. The security may consist of any one or more of the following : a first mortgage on real estate, plant and equipment, a first mortgage on chattels, an assignment of current accounts or notes receivable, trade acceptances, warehouse receipts on merchandise stored in bonded warehouses, or a first lien on other assets of sound value acceptable to the Corporation.

An assignment of orders will not constitute adequate primary security; however, such orders are important to establish the ability of the applicant to repay the loan. The Corporation will not usually consider as satisfactory primary security the following: second mortgages, parts of a bond issue (even though such issue is a first lien) unless the bonds have a readily ascertainable market value, shares of stock of corporate applicants or shares of stock without readily ascertainable market value, franchises, patents, goodwill, or foreign securities. Any due or delinquent taxes constituting a lien on the properties or earnings of the business must usually be fully paid or provided for before any loan will be made. A pledge of inventories will generally not be regarded as satisfactory collateral, unless stored in a bonded or otherwise acceptable warehouse.

The applicant must comply with the approved "Code of Fair Competition" (under N.R.A.).

The applicant must agree that during the currency of the loan salaries and dividends to be paid must have the Corporation's approval.

For loans under \$10,000 a sworn financial statement is accepted, while for larger amounts an independent audit and appraisal of plant and equipment satisfactory to the Corporation is required.

The co-operation between the Corporation and banks is regulated in a similar manner to that of the Federal Reserve banks.

The rate of interest on the loans shall be the prevailing bank rate, but in no case in excess of 6 per cent. The following table presents a comparison of the terms under which the two agencies were authorized to lend.

It will be noted that there is very little difference in the scope of the direct-loan operations of the two agencies. In the absence of any delimitation of the respective fields, business men are free to place their applications with whichever agency they think will be likely to be more liberal. In a number of cases concerns applied simultaneously to both and in other cases applicants, refused by one, tried again at the other.

LEGAL QUALIFICATIONS AND CONDITIONS FOR DIRECT LOANS TO INDUSTRY. FEDERAL RESERVE BANKS AND THE RECONSTRUCTION FINANCE CORPORATION.

	Federal Reserve Banks	Reconstruction Finance Corporation
Type of business ...	An industrial or commercial business.	An industrial or commercial business, including the fishing industry.
Age of business ...	An established business...	Established prior to Jan. 1, 1934
Financial status ...	—	Solvent, in the opinion of the board of directors of the Corporation.
Credit position ...	Unable to obtain requisite financial assistance on a reasonable basis from usual sources.	"When credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks."
Purpose of loan ...	For working capital...	For maintaining and increasing the employment of labour.
Maturity of obligation.	Not over 5 years ...	Not over 5 years.
Security required ...	"On reasonable and sound basis"	"Adequately secured in the opinion of the board of directors of the Corporation."
Amount of funds available.	\$ 250,000,000 ...	\$ 300,000,000.
Amount of any one loan.	—	Not over \$ 500,000.
Form of transaction	(a) Direct loan, or (b) Discount for or purchase from financial institutions, or (c) Advance to financial institution on the security of such obligation, or (d) Commitments with regard to such loan or advance to financial institution. (A, c and d require 20 per cent participation of financial institution in the risk).	(a) Direct loan, or (b) Loan in co-operation with bank, or (c) Purchase of participation.

The working of the two agencies were subject to criticism, mainly concerning the procedure. It appears, however, that there was no appreciable demand for the genuine commercial loans offered by the two agencies, but rather for loans of a capital nature which they could not supply.

This fact was forcefully brought to the attention of the Federal authorities and the public by the recommendations of the Business Advisory and Planning Council of the Department of Commerce, which accompanied the "Survey of Reports of Credit and Capital Difficulties submitted by Small Manufacturers," previously mentioned, in which an immediate study was recommended to be undertaken by the Reconstruction Finance Corporation, Federal Reserve Board and Securities and Exchange Commission in co-operation with the investment bankers of the country, "to the end that facilities be offered sound, small industries for the acquisition of needed capital."

Basing itself on the findings of the previously mentioned three reports, as well as the result of the operations of the Federal Reserve banks and the Reconstruction Finance Corporation under the Act of June 19, 1934, the Council states: "With the continued restoration of business activity the need of small industry for intermediate and long-term capital has become increasingly urgent. There seems to be little doubt that a large number of the smaller manufacturing concerns have been able to withstand the effects of the long drawn out depression in part, through sharp curtailment of expenditures on repairs of building and equipment and, in part, through the reduction of inventories of raw materials, spare parts and supplies to a hand-to-mouth basis. Not only is existing equipment wearing out at a rapid rate but it is also becoming obsolete. The necessity for buying raw materials, etc., in limited quantities prevents concerns from acquiring them at satisfactory prices. Both factors operate to increase manufacturing costs and to reduce profits."

The Council goes on to point out that these difficulties are not simply a depression problem, as capital issues are always denied to such small units which, therefore, had to rely on profits and private capitalists for their capital supply.

It appears that the authorities were impressed by the existing investment need "as of paramount importance to recovery" and in order to combat the latest "recession" an Act of Congress of April 13, 1938, granted greatly extended lending powers to the Reconstruction

Finance Corporation in the field of Government loans to business enterprises. Under the Act no limit was placed on the amount of funds that could be advanced to any one borrower by the Corporation, nor restrictions as to the maximum maturity of such loans; nor was a definite amount of funds authorized for granting this type of credit.

The instructions (Circular No. 13, Revised) for these new loans, clearly speak already of "capital or credit" to be loaned to finance capital expenditures "on longer terms than five years." These loans may be for working capital, for renewal of equipment, for new business enterprises and expansion of existing enterprises, for industrial construction.

With regard to existing indebtedness the policy of the Corporation ends as follows:—

"It is not the intention of this Corporation to make loans for the primary purpose of paying existing indebtedness. Consideration will be given to applications for loans where a portion of the proceeds is to be applied to the payment of existing indebtedness, provided that the applicant, after receiving the loan and after adjustment of debt (if necessary), will have sufficient operating assets, and that there is reasonable assurance of continuous operation."

Adjustment of debts may be accomplished by one or more of the following methods:—

- (a) By issuance of shares of stock of the applicant in full payment;
- (b) By issuance of bonds or notes secured by mortgage subordinate to the mortgage that will secure this Corporation;
- (c) By agreement of creditors to make no demand for payment until the loan is repaid (commonly referred to as "stand-by agreement");
- (d) By payment of cash on a compromise basis in full satisfaction of the debt;
- (e) By Cancellation."

It seems unlikely that even these improvements meet with the actual requirements of the smaller industrial concerns, which lead to a number of proposals to Congress and Senate. In 1938 Senator Fletcher came forward with a Bill for Intermediate Credit Banks, while the Committee on Banking and Currency examined two bills of Senator Pepper,

one (S. 3630) "to establish regional industrial banks," the other (3430) "to make possible insurance of loans to small business." A year later, in June, 1939, again, two bills were examined by the Committee, both introduced by Senator Mead and Congressman Allen (S. 1482 and S. 2343) "for the insurance by the Reconstruction Finance Corporation of Loans made by Banks to Business Enterprises for the purpose of enabling such enterprises to increase their productions, extend their operations and modernize their plants and for other purposes." This Bill was later in the year replaced by its authors by a Bill for the Establishment of an Industrial Loan Corporation.

These various proposals clearly indicate the existing need for a more permanent credit organization which is borne out also by the various reports on the effect of the previously mentioned relief measures.

The Monthly Review of the Federal Reserve Bank of New York August 1938, reports on the bank's experience with industrial loans under the Act of 1934: "The total amount of advances and commitments made by the bank on approved applications during the four-year period was approximately \$24,500,000. The loans ranged in size from a \$300 loan to the proprietor of a delicatessen to a \$4,200,000 loan to an automobile company. Of the 4,750 inquiries received, 1,348 resulted in the filing of applications, of which 768 were declined, 504 approved, and the remainder either withdrawn or awaiting consideration. Advances or commitments actually made numbered 351.

It had been found in many cases that the loans made, either directly or in conjunction with commercial banks, had served a useful purpose in enabling the borrowers to maintain or increase employment and to rehabilitate their businesses. But, despite the great care exercised in the original review of the applications and the constant supervision maintained, it became necessary to place a number of the loans on the "trouble" list; and in a few cases the borrowing concerns failed in spite of the receipt of loans. The bank's conclusion was that the income received, even at rates as high as 6 per cent, was not adequate to cover expenses and losses.

Since the business recession began late in 1937 there has been a considerable increase in the number of inquiries from business concerns regarding the possibility of obtaining loans from the bank. In a large

percentage of the cases the bank found that the needs were for permanent additions to proprietary capital or for other types of loans that are ineligible for the bank, or that the condition of the business of the prospective borrower was such as to provide no sound basis for bank credit. This experience was a repetition of that encountered immediately after the enactment of the legislation."

The experience of the *Federal Reserve Banks* with these industrial loans is best illustrated by the following summary, covering the period June 19, 1934 — June 5, 1939:—

		\$
Applications received... ..	No. 9,291	Amount 395,000,000
" approved ... ..	" 2,700	" 179,294,000
" withdrawn by client after approval ... ..		" 15,000,000
Credit not accepted by clients owing to terms ... ..		" 30,862,000
" advanced by financial institutions ... ..		" 24,000,000
" executed by F.R.B. ... ..		" 64,000,000

The amount outstanding on this account by July 26, 1939, was \$13,000,000.

The total amount outstanding with the *Reconstruction Finance Corporation* on May 31, 1939, was less than \$117,000,000, while loans approved during the 5-year period amounted to \$510,000,000.

These loans, together approximately \$130,000,000 (\$140,000,000 by September 30, 1939) represented  $\frac{1}{4}$  per cent of the total volume of bank loans outstanding.

That there was only a small unsatisfied demand for loans was maintained in various quarters. Replies to a questionnaire sent in 1939 to a representative group of business concerns by the National Industrial Conference Board disclosed that more than 91 per cent of the 1,755 reporting concerns had had no difficulty in obtaining credit in recent years. Most of the 9 per cent that reported difficulty were found to have required permanent additions to capital, to have been already indebted to banks at the time the credit application was made, to have offered no security for the loan, or to have had an uncertain credit standing.

Further light is thrown on the attitude of banks toward loan expansion by a survey by the Research Council of the American Bankers Association. It was found that, at the time of the survey (1938 ?), 86½ per cent of the reporting banks were making positive efforts to stimulate loans, while 9 per cent were making no special effort. The other 4½ per cent did not answer this question. Nearly 75 per cent of the banks were using advertising in their endeavours to make loans; more than 63 per cent were using the method of direct solicitation, and 58 per cent were offering lines of credit to customers. Many other methods were being used by smaller numbers of banks.

The view that there was no need for further lending facilities was represented, during the hearings in 1939 on the Mead-Allen Bill by Mr. Perkins, chairman of the National City Bank of New York who stated: "While banks have for many years been lending to customers for longer periods than a year, this practice has in recent months received more study, and banks are now making much more largely what are called term loans, that is, loans with maturities running from one up to five years, and in some cases ten years, with amortization payments to pay off the loan in whole or in part. We now have on our books more than \$ 65,000,000 of these loans. One may think of them as in some degree capital loans. They have been used to retire outstanding debt, to purchase machinery or equipment, or finance improvements of one kind or another to be paid out of earnings. I believe the amount of such loans should be limited in relation to our total assets.

"In 1928 the City Bank decided to set up a special department for caring for the needs of the small borrower.... Since that time our personal loan department has made in the neighbourhood of one and a half million small loans in a dollar amount of \$ 438,000,000. Today we have on the books about 325,000 of which we estimate that about 30,000 are to small business men. These loans range from two or three hundred to two or three thousand dollars. As the volume of our small loans has increased and our handling of them improved we have reduced the cost to the borrower who now pays an effective rate of 6 per cent.

"It is my information that other banks in all parts of the country are carrying forward somewhat similar services, so it is a mistake to say that the small business man is neglected.

"It is well known that all banks have been holding large amounts of excess funds which they are extremely anxious to employ.

"Many of the people who are most anxious to borrow money and who make the most noise about it, and who, if they are not satisfied at their own banks, are most likely to make vigorous appeals to Congress and other agencies of government, are people who are visionary and impractical or inexperienced."

Mr. Perkins was supported by no less authority than the Mr. Jesse H. Jones, then Chairman of the *R.F.C.*, but since elevated to the post of Federal Loan Administrator who stated:—

"The great majority of these inquiries and applications for business loans come from applicants with promotional ideas, with no successful record of business experience, and little prospect of success or earnings. In most cases there was no economic justification for the loan sought, and which if made would only have had the effect of aiding one business at the expense of another.

"Much is being said about credit for little business and I call your attention to the fact that 37 per cent in number of all our business loans have been for \$5,000 or less, 71 per cent for \$25,000 or less, 83 per cent for \$50,000 or less, and 91 per cent for \$100,000 or less. Our average loan to business has been \$55,000.

"Any deserving borrower, who can furnish security that will reasonably assure repayment of his loan, can have a loan, if he will apply to the *R.F.C.* for it, and on very generous terms, provided the loan will serve a useful purpose and is consistent with the law.

"There is not a little-business man in the United States that is entitled to a loan, with reasonable expectation of being able to repay it, that cannot get a loan, whether it is for \$500 or \$5,000."

Against this weighty evidence stands the opinion of nobody less than Mr. Marriner Eccles, Chairman of Federal Reserve Board whose views may be summarized as follows:—

First, that there is a substantial number of deserving concerns whose paper, either because they are new or because of present business conditions, is at the border line of bankable assets, and hence are unable to satisfy their short and intermediate credit needs at the banks, and

Second, that there is a shortage of long-term credit and capital for small business arising from various causes, including increased cost of issuing securities due to registration requirements, prohibition of security affiliates of banks, prohibition of underwriting by banks, and elimination of local underwriters in various small communities.

It was Mr. Eccles' contention that the authority to make loans in alleviation of these difficulties, which had already been granted to the Federal Reserve banks and to the R.F.C. fell short of the requirements.

Mr. Eccles endorsed the purpose of the Mead-Allen Bill but disagreed as to the proposed method, i.e. an insurance by the R.F.C. for financial institutions making industrial loans against losses exceeding 10 per cent of the original loan and at a premium of  $\frac{1}{4}$ -1 per cent on the unpaid balance, subject to certain terms of the loan.

Senator Mead subsequently (in the fall of 1939) introduced a modified Bill, based on Mr. Eccles' proposal for the establishment of a new government agency within the Federal Reserve System to be known as the *Industrial Loan Corporation*, whose funds would be provided by the Treasury out of the remaining profits of gold revaluation, and consist of \$ 100,000,000 of capital and \$ 39,000,000 of surplus. Administration would be vested in the Board of Governors of the Federal Reserve System, and operations conducted through the twelve Federal Reserve Banks and their twenty-four branches as field agencies.

The Corporation would have power to issue up to \$ 500,000,000 of its own securities, guaranteed both as to interest and principal by the United States Government. It would take over the present business loans and business loan commitments of the Federal Reserve banks and have authority to make new loans to, or purchase preferred stock from business enterprises for periods up to ten years, and in amounts not exceeding \$ 1,000,000 in case of any single enterprise, with provision for amortization sufficient to retire at least 40 per cent of such outstandings within the ten-year period. Besides its power to make direct loans, the Corporation would be authorized to utilize up to \$ 25,000,000 of its surplus to insure bank members of the Federal Deposit Insurance Corporation against losses on loans not exceeding \$ 25,000 to any one borrower.

In other words, what is proposed is a combination Government-direct lending and insurance plan, designed, to quote Senator Mead, "to ease the credit problems of small and intermediate-sized business concerns."

It is significant that the Bill would put government permanently in the lending business, which was not the case with the proposals up to this time.

Owing to the outbreak of the war and subsequent economic developments the introduction of the proposed legislation has apparently been deferred and, thus, also the decision on the issue between Mr. Jesse

Jones and the bankers on the one hand, and Mr. Eccles, backed not only by his own undoubted authority, but also by the findings of the Hardy-Viner Report and the Department of Commerce Survey on the other.

#### (43) MEXICO

The Mexican Banking Law of 1897 foresaw the creation of Banks of Promotion (*Refsecionarios*) for facilitating the development of agriculture, industry and mining, by means of privileged loans and authorized to issue short-term credit instruments bearing interest and redeemable at a fixed date, such loans to be granted for periods not exceeding three years, on security of real estate.

There are also Industrial and Agricultural Banks, which increased rapidly in recent years, viz. from 3 in 1925 to 16 in 1933.

Under the Law of February 18, 1935, the *Credito Popular* was set up as the central credit organisation of the local co-operative banks, intended for artisans, workers and small industrialists.

A special law as to industrial credit was on file at the end of 1935, and was to be enacted after revision. Meanwhile owing to political changes, the *Banco Nacional Obrero de Fomento Industrial* (The National Workers Bank for Industrial Development), as established by the law of July 22, 1937, differed considerably from what similar institution, used to be in other countries. Its object is to facilitate new industries under workers administration and all credit operations with local credit and other co-operative societies. In this it seems to point to the old syndicalist idea of the workers of each undertaking becoming its owner.

In the meantime Government allocated large amounts for worker administered cement factories and the engineering industry. The new Bank is to take into its hands the credits hitherto granted to the workers of various undertakings and to establish a plan under which the workers administration of the most important industries is to be gradually introduced in accordance with the economic policy of the Government.

The bank has not lent on an extended scale; until 1938 total credits granted amounting to 8.15 million pesos. The credits granted were expected, however, to increase very much with the accumulation of funds on account of the Oil Indemnity Fund which according to a decree of the President were to be collected by a 20 per cent levy on oil exports in order to provide for future indemnification for the expropriated owners.

The total capital of the Co-operative Societies entitled to receive credits from the bank at April 1, 1938, amounted to 26.79 million pesos and their annual production to 20 million pesos. But, on the

other hand, workers co-operatives managing important industrial undertakings on account of the workers concerned are steadily increasing, the railways and the largest cement factories having been transferred to such workers administration.

The Bank is administrated by a committee consisting of representatives of Government, the Banco de Mexico, the subsidiaries of the Banco de Mexico for co-operative credit, the local co-operatives receiving credit from the Bank, and of the Central Trade Union.

The officials are elected publicly; members or employees of private undertakings are excluded from being members of the Executive Committee. Directors fees are limited to 300 pesos per month.

Co-operative societies applying for credits have to accept the control of the bank which has a right of veto in respect of all resolutions of societies in respect of economic matters.

Article 32 of the Regulations of the Bank instructs the Bank to draw up an industrialization plan which when approved by the Executive Committee shall serve as a basis for the credit allocations.

The institution is further empowered to undertake operations as a Trustee, subject to instructions given for each case by the Federal Government, with a view to taking upon itself the responsibility for establishing new industries, and for financing others which for special reasons do not rank as co-operative organizations but should nevertheless be supported in order that they may fall in with the economic policy of the Mexican State.

The system built up with the support of the National Workers Bank for Industrial Development comprises, at the present moment (1939), about a hundred organizations in full operation (including Credit Associations, Co-operatives of various kinds, and undertakings administered directly by the Bank) which represent in round figures a capitalization of Pesos 26,000,000 with about 12,000 associated members.

The bank carries on its operations not only with the capital provided by the Federal Government, but serves also to provide investment opportunities for private capital, to which it offers special security.

Over and above its special functions as a credit institution, the National Workers Bank furnishes a service of technical direction to the co-operatives, associations and organizations with which it is in

touch, controlling the objects of their operations, centralizing the purchase of raw materials and tools, and organizing the disposal of their products. Hence, it is not restricted to the provision of credit facilities, but acts also as a technical adviser to the undertakings that form part of its system.

Needless to say, this Institution adapts its investment programme to the policy adopted by the Government, and although, owing to the recent date of its foundation, it cannot as yet count upon a capital sufficient to cope with its extensive programme—a capital it would be difficult to collect in any short time—it undoubtedly represents one of the most important steps taken in Mexico not only for the organization of long-term credit, but also for the speeding-up of the industrial development of the country.

#### (44) ARGENTINE

The Argentinian banks do not practise direct participation in industrial undertakings. The Banco de la Nación is, by its statutes expressly forbidden to participate directly or indirectly in industrial or commercial enterprises. Lately, however, a change in policy seems to have taken place.

The Central Bank of Argentina issued an official statement on June 26, 1940, to the effect that an offer from the Export-Import Bank of Washington of a loan of U.S. \$20,000,000 had been accepted with the guarantee of the Argentine Government. This sum will be received in two quotas of U.S. \$12,000,000 and U.S. \$8,000,000 respectively, the latter as soon as the former has been used, and will be repayable by three equal annual instalments with interest at 3.00 per cent per annum.

The object of the loan is to finance the importation from the U.S.A. of machinery and industrial and transport material to be used in augmenting the output of Argentine products for home consumption, and one of the first steps will be to acquire the necessary machinery, etc., for constructing a pipe line from the State Oilfields in Mendoza to San Lorenzo on the River Parana.

The dollars obtained under this loan will be transferred to the Exchange Fund, which is managed by the Central Bank for account of the National Treasury, and they will be sold to the local banks who, in

turn, will place the dollars at the disposal of industrial and other concerns for periods up to three years. All operation will be controlled by the Central Bank, and details regarding terms and conditions, such as the rate of exchange for repayment of advances, are to be announced later.

The official statement concludes by observing that, at the current selling rate of exchange, the total loan is equivalent in Argentine currency to 84,600,000 pesos, and that this is the first time that Argentina has tried the experiment of medium-term industrial financing; the venture is to serve as a test for the general plan of industrial financing which the Argentine Government is at present studying.

#### (45) BRAZIL.

The Brazilian commercial banks may be described as pure deposit banks. In order to encourage the uniform development of manufacturing industry in the whole country, the Government towards the end of 1934 proceeded to establish industrial banks in every State.

In November 1936, a reorganisation took place of the central bank, the *Banco de Brazil*, as a result of which the direct lending to agriculture and industry in the national interest was made possible. Industries using local raw materials or developing the natural resources of the country or necessary for the national defence, may be granted loans up to a maximum of five years. Such loans are to be granted in current account and secured by a mortgage on the immovable property, machines and equipment.

The capital required for such loans is to be procured by issue of bearer debentures negotiable at the Stock Exchange issued for 1, 2, 3 and 5 years currency. The amount and term of such debentures may not exceed those of the collateral loans.

The debentures are issued in amounts of Rs. 500; 1,000; 10,000; 50,000; and 100,000.

For the purpose of organising such credits a special Department for Agricultural and Industrial Credit has been established whose director has been particularly entrusted with the setting up of a most complete statistical service on the national production, with special regard to supplying the national requirements.

The report for 1936 indicated that the Department was granting two kinds of credit to industry, viz. credits on raw materials, for periods up to 12 months, and credits for technical improvements up to a maximum of 5 years. In 1939, under certain conditions, "personal credits" were extended.

The Department is not permitted to grant credits for the purchase or improvement of real property or the initial installation of machinery.

The loans are not to exceed 40 per cent of the value of the equipment, for whose purchase they are granted. Only in case of industries using local raw materials or being of importance for the national defence, the loan can be extended to 50 per cent of immovable and movable property offered as security.

The number of industrial accounts increased from 5,000 in 1936 to 65,000 in 1939, with an increase in the balance outstanding at the end of the year from 38,000 contos of Reis to 166,000 during the years 1938-1939.

Like in the Argentine and other South-American Republics, so also Brazilian industrialisation was stimulated by the Export-Import Bank of Washington. In 1940 an Agreement was signed by representatives of the American and Brazilian Governments for the installation of a large-scale steel plant in Brazil. The financing of this scheme involves the sum of U.S. \$ 45,000,000, of which U.S. \$ 25,000,000 will be contributed by the Government, credit institutions and private investors in Brazil, whilst U.S. \$ 20,000,000 will be lent by the Export-Import Bank of Washington for the purchase of material and equipment in the U.S.A. This loan, which will be guaranteed by the Brazilian Government, will be repayable over a period of 10 years commencing 3 years after the date of the first advance. The completion of the plan is expected to take about 2½ years, and one-half of the U.S. loan is to be made available for the purchase of supplies during the first twelve to eighteen months, the balance being furnished according to the progress of the work.

#### (46) CHILE

In February 1928, the *Instituto de Crédito Industrial* was established as a limited company for the purpose of granting credits to manufacturing industries in Chile. Of the authorised capital of Pesos 40,000,000, Pesos 29,800,000 were subscribed and paid up by the Retirement Funds Bureaux and the National Savings Bank, and the Institute was authorized to discount documents with the Central Bank up to an extent of Pesos 25,000,000.

The Institute grants loans to Chilean industries established in the country and to foreign undertakings with more than five years residence in the country. Interest rates fluctuate between 8-9 per cent for operations made with the Institute's own capital, and 5 per cent for credit operations qualified for discount purposes with the Central Bank. In addition to providing industry with special credit facilities, the Institute accepts deposits and discounts bills. Loans are secured by liens upon industrial property. The Institute does not confine itself to credit operations, but takes an active part in the development of industry in general, and is empowered to take over the control of industries, if circumstances should make this advisable. The following is a summary of the operations of the Institute from February, 1928, until December 31, 1933:—

	Pesos
Credits Solicited ... ..	156,829,570·87
.. Granted ... ..	110,015,148·35
.. Paid out ... ..	88,284,917·76
.. Repaid ... ..	53,261,933·13

The loans outstanding on December 31, 1933, were as follows:—

	Pesos
Loans ... ..	21,116,387·57
Discounts with Central Bank ... ..	13,906,597·06
Special Loans ... ..	5,137,414·64
Documents covering guarantees ... ..	1,421,963·98
	41,582,363·28

In order to extend the operations of the Institute, authority was sought and obtained to increase the capital up to Pesos 100,000,000, viz.:

- 30 Million Pesos (Shares "A") were provided for by the State.
- 30 .. .. (Shares "B") were provided for by the National Savings Bank and social insurance funds.
- 40 .. .. (Shares "B") to be subscribed by these and other semi-public institutions.

The "B" shares being guaranteed for a 6 per cent dividend by the State, the Institute is in fact a State department. In accordance therewith, the directors are appointed: 5 by the semi-public institutions, 1 by the Senate, 1 by the House of Representatives (Camara de Diputadores), 3 by the President.

The borrowers are to be subjected to a close examination of books and accounts (if it is found that the loan was not used for the purposes for which it was to be applied the whole sum borrowed becomes repayable); and the regulations of the Banco Central as to the use for the facilities (new investments and purchase of raw materials) are apparently strictly enforced. The capital available for loans is partly reserved for special purposes, viz. 5 per cent of the capital to small industries in loans not exceeding 10,000 pesos at 5 per cent or less interest and 10 per cent of the capital to hotel industries. The discount credits of the Banco Central de Chile (25 Mill Pesos) opened by the Law 5185 are to be applied as to:—

per cent

10	in loans to	small manufacturers (loans not exceeding 5,000 pesos).
10	..	medium-size manufacturers (loans not exceeding 10,000 pesos).
20	..	medium-size manufacturers (loans not exceeding 20,000 pesos).
20	..	Co-operative Societies.

The Institute itself found the rules laid down too stringent, as there were apparently less than 500 or 250 creditworthy applicants among the very smallest and the medium-size manufacturers. On the other hand, the anti-inflationist tendencies of the Central Bank brought about a restriction of the credits available, so that at the end of 1933 out of the discount credit with the Central Bank of 25 million pesos under Law 5185 (see below) only 4,883,000 pesos were actually granted.

The actual importance of the Institute is shown less by the credits allocated (end of 1932 55.73 mill. pesos

..	1933	39.70	..	..
..	1934	38.60	..	..
..	1935	38.10	..	..

than by the guarantees given in favour of the Institute's clients (end of 1932 142,876 mill.; end of 1933 174,840 mill. pesos).

At the same time as there was no influx of new capital before 1935 the rather curious effect was, that while Law 5185 increased in 1933 the credit facilities by 25 mill. pesos, the total loans granted by the Institute on December 31, 1933, was 15.5 mill. pesos less than in 1932. This may have been partly due to the legal instability of the securities.

In 1935, in order to facilitate the borrowing for industrial development, a register of pledges has been introduced. Pledges of raw material,

manufactured goods, machinery and tools are effected by simple agreement and registration in a public register, so that the debtor (as trustee of the pledge) retains the possession.

The fact that in 1933 only 6 per cent of the bills discounted were protested, tends to show the careful selection among the borrowers.

The above-mentioned increased discount facilities were granted under Law 5185 which was passed in June 1933, providing for a plan of Industrial Development through bank credit up to an amount of 300 million pesos, of which almost one half was allotted to the Nitrate industry alone. By a law of November 1933, this total was raised to 460 million pesos, of which the share of the nitrate industry was fixed at 290 millions. It was provided that the Central Bank itself should grant direct credits under these laws, if the credits supplied by the commercial banks did not attain the total fixed. Moreover, the documents against which the latter were to grant the loans in question, were made rediscountable at the Central Bank, although the credits were not of a short-term character.

It should be mentioned here that Chilean commercial banks, as a rule, do not maintain close relations with industry.

Out of the above-mentioned credits, the Central Bank, under the Law No. 5185 of June 30, 1933, was required to grant credits to the institutions mentioned below:—

(1) Industrial Credit Institute ... ..	Pesos	25,000,000
(2) Mining Credit Institute ... ..	..	65,000,000
(3) Coal Production Office ... ..	..	10,000,000
(4) Agricultural Credit Institute ... ..	..	40,000,000
(5) Agricultural Colonization Institute ... ..	..	20,000,000
(6) Nitrate Industry ... ..	..	140,000,000
	Pesos	<u>300,000,000</u>

As the Instituto had to pay 6 and 7 per cent (guaranteed) dividend respectively and the credits granted out of its own capital were subsequently rather expensive (9 per cent) the restriction of discount facilities (which cost the client 5 per cent only) was keenly felt, not only with regard to the amount, but also for its cost.

Another industrial credit institute is the above-mentioned *Mining Credit Institute* (Caja de Credito Minero) which was established in 1927 to grant credits for the development of mining industry. It is authorised

to buy and sell minerals, acquire and exploit mining properties and participate in all phases of the mining industry. The capital of Pesos 60,000,000 was subscribed by the State. The loans outstanding per July 31, 1935, were Pesos 18,500,000.

No information is at hand on the *Industrial Development Institute* which had a balance of Pesos 300,000 outstanding per July 31, 1935

#### (47) COLOMBIA

Banks in Colombia must not hold shares in industrial enterprises for their own account, but they may hold bonds of transport and industrial companies of certain categories defined by law. The total of such holdings, however, must not exceed 10 per cent of the capital and reserves of the banks.

In August 1932, a Central Mortgage Bank, created by law with a share capital of 20 million pesos, started operations. This Banco Central Hipotecario was authorised by a decree of December 6, 1937, to open an *industrial credit section* to make loans for terms not exceeding five years by the issue of "Industrial Credit Bonds." The bonds are to be guaranteed by mortgages on real estate and by industrial liens on machinery.

In 1940, Decree No. 1155 (Credit Operation) provided for a loan to the Government from the Banco de la Republica up to 20,000,000 pesos or the equivalent in foreign currencies. The proceeds, to the extent of 17,500,000 pesos, were to be employed among other purposes for the subscription of new capital to the Caja de Crédito Agrario, Industrial y Minero (7,000,000 pesos) and the subscription of new capital to the Instituto de Fomento Industrial (see Decree No. 1157 mentioned below), (2,000,000 pesos). This loan will be outside the Government's credit limit for current banking facilities with the Banco de la Republica. It is understood that the latter Institution will receive some 17,500,000 pesos from the sale to importers of foreign exchange available under the credit of U.S. \$ 10,000,000 granted by the Export-Import Bank of Washington.

Under Decree No. 1387, the existing debt of the Colombian Government to the Banco de la Republica, as well as the new loan contracted

under Decree No. 1155, will be converted into Internal Land-Salt 30-Years Bonds bearing interest at the same rates as the loans they replace. The Banco de la Republica will continue to exploit the national salt mines as heretofore.

Decree No. 1157 (National Economic Development) gives wide powers to the Ministry of National Economy to carry out a general Plan to foster the economic activities of the country, and particularly such as would assist the Republic in becoming independent of supplies from abroad of foodstuffs and raw materials for industry, and to promote the development of new industries and exports. Primary attention will therefore be given to the development of production of food and medicinal products as well as raw materials for industry, and the exportation of commercial products. The Plan will cover not only the study, exploitation, use, method of production and cheapening of products but also questions relating to power, combustibles, construction materials, etc., as well as technical training and the increase of productive capacity. The Plan is subdivided under three headings, namely, (a) Agricultural development; (b) Cattle-raising development; (c) Development of manufactures.

This Decree, which is of a very comprehensive character, further provides for the formation of the Instituto de Fomento Industrial to assist basic industries. Decree No. 1419, 1940, relates specifically to this proposed Instituto de Fomento Industrial. The Instituto may promote and assist new industries either by subscribing up to 51 per cent of their capital or by making or guaranteeing loans, and may also contract loans at home or abroad which may be guaranteed by the Government. The following national industries are to receive assistance under Decree No. 1157: iron, coal, coke, etc., lead, copper, zinc, tin, mercury and other metals, ceramics, glass and enamels, soda and associated industries, sulphuric acid, carbide, etc., manure (natural and synthetic), mineral salts for cattle, animal foods, fungicides and insecticides, celluloid, vegetable extracts, medicinal preparations and orchids, fibres and vegetable oils, nut-oils, ivory-nut, coffee by-products, maize and other cereal preparations and preserves, fruit preserves, fishing, wool, preparation of skins and furs; pasteurization of milk.

Decree No. 1439 stipulates that foreign capital imported into Colombia before February 19, 1935, employed in any of the above mentioned

industries through entities in which the Instituto de Fomento Industrial holds shares, or invested in bonds of the Instituto for at least three years, is conceded the right of re-export.

By the terms of Decree No. 1454, the National Association of Manufacturers, with subsidiary bodies in the Provinces, is established in order to assist in carrying out the Economic Plan.

#### (48) PERU

In January 1933, the *Industrial Bank of Peru* was established with the object of "encouraging the production of those articles which are now imported but which may technically and economically be produced in the country." It has a capital of 40 million soles, of which the State contributed 20 million soles by the levy of a special 1 per cent *ad-valorem* tax on all imports. At the end of 1933, the Central Bank held for the account of the Industrial Bank gold amounting to 368,575 soles.

400,000 shares ("A") were subscribed by the State, 200,000 shares ("B") by the public, and the balance left for subscriptions from banks ("C") and industry ("D"). As the "A" shares appoint 3, and each of the other classes 2 directors, the balance of powers is well secured. An institute with a nominal capital of 40 mill. soles is of relatively high importance, the total currency in circulation being less than 100 millions.

The import tax apparently was collected extremely slowly; the sums at the disposal of the bank on December 31, 1936, amounted to not more than 2,217 mill. soles (= £ 210,000). Theoretically, the monthly income from the tax should be about 160-180,000 soles (the average monthly imports being in 1936 16.6 and in 1937 18.5 mill. soles). The actual income from the tax appears to have been less than 80,000 soles per month in 1937.

But even if the import tax were collected and deposited in accordance with the provisions of the law, it would have taken about eight more years before the State's share in the capital would have been collected.

In November 1936, the Bank actually commenced business. The sphere of its activities was naturally limited by the lack of available funds. The vast possibilities for a development of the State's natural resources and supply by national production of goods hitherto imported have not yet been made use of under this system.

Another Government bank, the *Banco Minero del Peru*, was to be established in the course of 1935 with the object of exploiting directly and indirectly the mineral resources of the country.

The law (No. 9157) concerning this bank, however, became effective only in 1940.

The bank is to finance companies established in this country provided that sixty per cent of their capital is held by Peruvians, and should prove of much value in aiding the development of the mining industry.

The authorised capital of the new bank is 50,000,000 sols, wholly owned by the Government, and to be derived from (a) a tax of 2 per cent on exports of gold, vanadium, tungsten, molybdenum, manganese, tin and petroleum; and (b) a tax of 1 per cent on exports of all other minerals and petroleum derivatives. The initial working capital will be obtained by Government borrowing from the Central Bank or the commercial banks.

#### (49) URUGUAY

After a Law had been enacted on September 24, 1928, providing special industrial credits on goods in warehouses, in 1930 an Industrial and Rural Credit Department was established with the State owned *Banco de la República*, to provide long-term loans to industries, also new ones, and to assist in the amalgamation of existing enterprises.

The credits granted by this Section are divided into four categories:—

- (1) *Prenda Industrial*, i.e. a registered pledge without possession for the creditor;
- (2) *Hipoteca Industrial*, i.e. mortgage credits.
- (3) Discounts credits for industries;
- (4) Credits in current account, and on securities.

These loans are mainly to be used for:—

- (1) Industries which the Bank considers useful for the National Economy, and which, after exhaustive study, recommend themselves for special facilities.
- (2) Favouring the development and practical application of industrial processes by persons of recognised moral standing, but limited means.
- (3) Stimulating the exploitation of interesting inventions.
- (4) Favouring combines of producers.

The Bank renders also assistance by technical advice to manufacturers and in the storing, exporting and marketing of local products. It took an active part in arranging the Industrial Exhibition in 1933.

As there is practically no other source of credit available to the small industrialists the Central Bank has practically control of the economic system as far as export and import of industrial goods is concerned. The Central Bank purchases or assists in the purchase of all raw material, in the provision of industrial premises, purchases trucks and installations and provides or helps to provide cold storage facilities, and finances combines for fruit preservation, etc.

The world slump in 1931 caused the Central Bank to embark upon a deflationist policy; but in spite of this change in policy the industrial credits continued to increase in 1931-1932 because the financial leaders were inclined to favour the development of local industry as a remedy against the slump in agricultural exports. In 1933, however, the industrial credit was reduced by about 10 per cent and this downward movement continued with the exception of 1935-1936 when the trade revival required additional Current Account and Lombard credits. The Bank's reports indicate that Lombard credits have kept on the increase throughout the nine years, 1929-1937, while other credits decreased since 1932. This leads to the conclusion that this kind of credit has been found the most suitable one for the specific need of Uruguay's industry.

#### (56) VENEZUELA

A Decree signed by the President of Venezuela on July 23, 1937, provides for the establishment of an industrial bank to be known as the "Banco Industrial de Venezuela."

The bank was to have a capital of 10 million bolivares, of which 50 per cent were to be subscribed by the State, the remainder being offered for public subscription. The head office is to be in Caracas, but branches may be opened elsewhere in the country.

The object of the bank is to assist in the promotion of national manufacturing and mining industries, and for that purpose it is authorised to make loans from its capital. As security for such loans the bank may accept mortgages on property, liens on industrial or mining products or merchandise, or other guarantees. It may also, at discretion, grant loans to small concerns without security.

Loans to any one concern or individual are limited to 100,000 bols. if guaranteed, and to 20,000 bols., if unsecured. They may be granted for from two to six years and are to bear interest at from 3 to 5 per cent per annum.

The bank may borrow money on the security of the mortgage and other guarantees which it holds. It may also receive deposits on savings accounts, repayable at fixed terms, up to 50 per cent of its capital, but must keep a reserve of at least 15 per cent of such deposits in legal tender (or in gold specie if they have been made in gold). With the funds so obtained, as distinct from its capital, it may perform all kinds of banking transactions sanctioned by the existing Banking Law.

The profits, if any, are to be distributed as follows:—

- 10 per cent to reserve;
- 10    "    to a guarantee fund;
- 5     "    for amortization and depreciation;
- 5     "    for the board of directors and staff; and
- 70    "    for the shareholders.

The dividend payable to the State in respect of its half share of the capital is limited to  $2\frac{1}{2}$  per cent per annum.

### V.—Summary and Conclusions

In the foregoing chapters are recorded the various attempts\* to cope with the problem of credit for industry, made in fifty countries in all parts of the world and at various stages of industrial development.

The following features stand out in this vast experience :—

#### *Organization.*

We have seen that the German system of using short-term deposits by commercial banks for the "temporary financing" of long-term loans or investments, though still advocated by certain German economists, is universally rejected and a separation of this kind of business from commercial banks advocated. At the same time it was found desirable to collaborate closely with these banks, which by the daily current account movements and discount business have usually an intimate knowledge of their clients business.

But, not even the "German" system did suffice to supply the long-term credit required by smaller industrial concerns which have no access to the capital market.

Investors, too, have become more hesitant to absorb "unseasoned" industrial issues.

For this reason it became necessary both to develop new forms of organizations for the industrial credit supply, and to make available the necessary funds.

These requirements have been met :—

(a) By direct lending from Government funds (Central or Provincial), through special Governmental agencies, or by establishing special industrial credit institutions, wholly or partly financed by Government, out of their regular funds, or by a special tax on certain imports or exports.

(b) By direct lending through special departments of the national or central banks.

\* Certain major areas of financial activity have been almost entirely neglected, for example the considerable volume of financing that is carried on outside banking channels in the form of dealer and manufacturer credit, finance company, activities etc. Its existence also is widely recognized, but again we know little of its size, movement or structure. (A Program of Financial Research; National Bureau of Economic Research, New York, 1937).

(c) By granting guarantees on debenture issues of public, semi-public or private industrial credit institutions, which aim to supply the required capital to industry by "debenture substitution" or on credits granted by Saving Banks to small manufacturers.

(d) By private finance institutions working with their own capital only, or with capital obtained by issue of debentures.

#### *Share Capital.*

It appears that, with the exception of Great Britain and France, in all countries Government had to render assistance in making available the funds required for credit to industry. Even in Great Britain the first experiments were "nursed" by the Bank of England, and public funds supplement the regular credit sources in the Special Areas.

This action of Government is frequently augmented by the support from the central or national banks as shareholders in industrial credit institutions.

In a large number of cases part of the capital — often that taking the first risk — was provided by the beneficiaries of the credits, or by industry collectively. In a small number of cases private banks appear as shareholders in such industrial credit institutions, while several of them were established to unburden commercial banks of their industrial long-term assets or to rediscount such loans.

#### *Loan Funds.*

With the exception of Government agencies for direct lending in almost all cases the bulk of the funds are obtained by issuing debenture loans, interest and capital of which are often guaranteed by Government. In most cases where this guarantee was not granted, the institution failed in its purpose. Some institutions are granted re-discount facilities with the national banks. Long-term deposits frequently appear as additional credit source.

It appears that no particular success has been achieved so far in mobilising the "free" capital for industrial development.

In France and Great Britain funds are made available, too, from the banks and insurance companies with whom the industrial credit agencies are connected.

*Business Transacted.*

In many cases the credit institutions or agencies restrict their activities to granting long-term loans on industrial property and/or other securities.

In a few cases also special short-term credits are granted, such as Lombard credits on raw material and goods, but usually this is left to the commercial banks.

In most cases loans are granted only to undertakings which have been in existence and operating for some time with a fair prospect of success.

Only very few of the agencies, either working with public funds or own capital only, grant also "promoting credits" or share capital.

*Co-operation with other Banks.*

Some of the special institutions for industrial long-term loans were directly established and are controlled by deposit banks (France).

Some of them act as central banks which accept applications and grant loans only through the channel of the regular deposit banks, and the latter usually share in the risk.

*Procedure.*

In most cases advisory committees are appointed, with a fair representation of manufacturers, to consider the applications for loans.

Applications are always carefully investigated and sometimes also submitted to technical experts. The securities offered are usually evaluated by experts at the applicant's expense.

The procedure between application and granting of the loan takes usually several weeks.

*Clientele.*

In many cases the clientele is specially mentioned, viz. the small and medium-size industry. While sometimes a boundary line is drawn towards the artisanate (Norway) no definition is given where the medium-size industry ends and large scale industry starts. But on the whole loans are limited to L.P. 50,000 (Credit for Industry) or to loans smaller than the minimum issue permitted to be introduced on the securities market.

Attention is also to be given to a proper division of risks, among the various branches of industry.

#### *Terms of Credit.*

The cost of the credits vary considerably from  $4\frac{1}{2}$  per cent where the credits are supplied from Government funds to, what seems the maximum, 11 per cent in Roumania (since 1933, gradually reduced to 7 per cent), and 10 per cent in Greece (now reduced to  $5\frac{1}{2}$  per cent).

The rate is usually determined by the interest payable on debentures abroad and the cost of administration. In certain countries an additional "Risk Premium" is charged.

The actual cost in most cases will be between 7 per cent and 8 per cent interest.

The periods for which loans are granted vary from country to country. The maximum term is 20 years, while on the whole credits are granted up to 10 years. The amount of the loans is usually limited to an absolute maximum (£ 50,000 Britain and France, £ 25,000 Germany, as well as by the value of the securities offered). The percentages vary here. On buildings usually 50 per cent, and on land  $\frac{2}{3}$  of the value if the property can easily be converted into housing accommodation, otherwise 30 per cent. On machinery 30 per cent if it is modern and typical for the respective industry, and 60 per cent to 75 per cent on the market value of securities.

In a few cases, such as the Charterhouse Industrial Development Company for instance, the institution besides lending the capital at a fixed rate, usually takes a share in the equity of any business they may assist, upon terms as fixed between the parties.

In almost all cases the lending institutions retain their right to exercise a strict supervision over the debtors business, by appointing an auditor, by repeated examination of the accounts and records, but they rarely participate in the management by appointing a representative to the board.

It is, naturally, too early to state anything conclusive about the large number of experiments made in the field of industrial credit during the last two decades.

First of all, they followed different objects and consequently applied different methods. In some countries the newly created special credit agencies were supplying primarily "promoting" credits. This is particularly the case in countries of new industrial development, such as

South America, where public funds were used for this purpose. The demand for such credits has been voiced in all "colonization" countries, like Palestine, where the industrial settler experiences considerable difficulties to supplement by loans his frequently insufficient capital.

A similar complaint, however, is raised in highly developed countries, like England, where the lack of capital for exploiting industrially new patents or inventions and for the "incubation" of new enterprises was recently bemoaned (*cf.* "Planning" No. 123, May 1938, "British Management Review" Vol. III/1, 1938). It is clear that such credits can only be supplied by Government and by public-spirited persons, like Lord Nuffield, with a view to improving thereby economic conditions; or by investors willing to accept a speculative risk in consideration of a share in the equity. It can be done by a regular industrial credit institution operating with borrowed funds only to the extent as accumulated reserves will permit a risky investment. As, however, low costs are demanded for such credits, and as their administration is necessarily an expensive one (as we shall see later on), there will be only a meagre margin left for such investments.

In other countries the new industrial credit agencies were created for the purpose of saving the commercial banks holding considerable amounts of frozen assets, rather than the direct benefit of industry.

But in most cases, particularly where funds were partly obtained by issue of debentures or of loans from associated banks, the credit agencies had to limit their scope of business to industrial undertakings which were in operation for some time and had shown good prospects for development. It appears that, on the whole, the result was satisfactory and actual losses were very small. The experiments, so far, must be considered successful and encouraging with regard to this aspect of the business.

They appear to have been less successful in their attempts to mobilize capital for the benefit of small and medium-size industry, and, therefore, with few exceptions, had to rely on Government assistance either in form of capital, or in form of a guarantee on debenture issues. It is for this reason, that at the present stage of its development, the new industrial credit system shows a far-reaching tendency towards socialisation to nationalisation. This tendency, however, may change in time, when such institutions, after years of operation, can show a satisfactory record of profits and reserves.

This dependence upon profits — if private capital sources are to be mobilized — is a major factor in determining the cost of the credit. For some years to come the interest on such capital will have to be higher than that on gilt-edged securities,<sup>6</sup> and probably also than on general mortgage bonds, i.e. not less than 5-5½ per cent, and probably as much as 7-8 per cent. One should recall here the complaint of the Federal Reserve Bank of New-York, that the charge of 6 per cent proved insufficient to cover expenses and risk.

The other factors determining the cost of credits are the rather high expenses of administration which are conditioned by the character of the security for an industrial loan. Though this security usually takes the form of a mortgage on the industrial property it is fundamentally different from a mortgage on urban or rural property. The latter represents an objective value, and in case of default by the owner, there is little difficulty to dispose of the property. The value of industrial property, however, is dependent to a high degree on subjective factors, such as experienced management, efficiency and competition. And in times of rapid change the small man, who is foremost under consideration as client of the industrial credit institution, will require supervision, advice and guidance. Many of such men, bewildered often by the problems arising out of the growth of their undertaking, are apt to lose their head and commit grave mistakes which endanger the existence of their enterprise. For this reason loans to such undertakings require not only a thorough investigation by financial and technical experts prior to their issue, but also constant supervision during its currency by frequent audits, etc., and a close contact of the executive staff of the credit institution with their clients. The institution, in turn, must be staffed with a group of experts, competent and willing to co-operate with the manufacturers in their daily problems of organization, operation, marketing and finance.

Such an organization, however, is costly and where these costs are not borne by a grant from public funds (as it happened in a few cases) have to be paid for by the client. In fact, the services rendered to him are not overpaid and should not be considered as cost of credit. They actually should rather be paid by equity in the profits, than in interests on the loan, which then could be kept on a lower level.

It is still held in some countries that the most efficient supervision over the long-term loans is their joint administration with the regular banking business and German banks used in such cases to insist on the

exclusive business of the client. This view has been rejected by others who consider such exclusive business an undue increase of the risk connected with any one business. A combination of this kind may be possible where the loan is issued by the industrial credit institution through the channels of a commercial bank. An additional guarantee of the latter may ensure the proper supervision of the loan, but will not do away altogether with the necessity for a direct supervision by the central institution.

In order to compensate for the risk element which is of particular importance in the industrial credit business, certain institutions, usually those which refrain from supervision, charge a risk premium to the borrower, while others, in order to reduce the risk, laid down stringent rules as to the extent to which industrial property can be accepted as security. This however reduces a possible loan to an ineffective level, and for this reason additional securities such as life insurance policies have sometimes been proposed.

The basic organization of the industrial credit institution, as it developed in most countries, was conditioned by its function, *i.e.* to make available long-term credits of a capital nature to industrial undertakings which owing to their size have no access to the capital market. The institution therefore substitutes its own debentures for those of the undertaking. But it is ultimately the institution and its management which command the confidence of the investors and not so much the securities offered for the debentures.

For this reason it appears advisable that initially the institutions' resources should consist entirely of share capital which, though moderate, must be sufficiently large to enable a spreading of risks, as well as to carry the considerable overhead expenses. A portfolio of seasoned loans acquired by share capital will make easier the later issue of debentures. And so will the reserves, which to accumulate the share-holders will have to forego their dividends during the first years.

A careful operation on these lines will possibly attract also long-term deposits by Government, commercial banks and insurance companies, as well as small savers deposit certificates, which should form an important part of a seasoned institution's working capital.

From the foregoing we may conclude that industrial credit institutions established by private initiative and relying on the capital market may contribute considerably to ease the demand for such credit, but owing to the cost of capital and the risk involved, such credits will not

be cheap and a rate of 7½-8 per cent will be the normal for such credits, unless cheap capital is made available from public funds.

It has not been possible in the preceding chapters to draw a sharp line in each case between the supply of credit and the supply of capital. It is, in fact, not always easy to draw such line, as, particularly in the case of smaller undertakings, long-term credits provide the funds which they cannot obtain on the capital market. But, in order to complete the picture of the responsibilities accepted by the State directly and indirectly, we recorded also the investment activity in cases like Egypt, Iran, Iraq and Turkey, of public or semi-public credit institutions.

The discussion on the "Pros and Cons" for separate industrial credit institutions often suffers from the unprecise use of terms and much misunderstanding is thereby created. The difference of opinion with regard to the need for special industrial credit facilities in U.S.A., for instance, may, at least partly, be due to different conceptions of what financial assistance such facilities should provide.

But the issue becomes more contradictory by the anomalous position of an all-time high in deposits on the one hand, and unsatisfied credit demands on the other. The banks, anxious to employ their deposits profitably, resent any intrusion of the State into what they consider their domaine of business and gradually they enter the field of long-term loans, within the limits of liquidity set by the Supervisor of Banks. It is too early to see whether this development will lead them in the direction of the German "mixed system."\*

Deposits, however, have reached their all-time high because their owners refuse to invest them in industrial ventures, as they did before. The big "seasoned" industrial concerns whose paper is easily negotiable, now finance themselves out of their reserves and depreciation funds and rarely offer issues to the investor. To finance new or small concerns, whose paper is not easily negotiable, would have meant, under the unstable conditions of the last decade or so, to freeze

\* The fact that institutions specializing openly in financing in intermediate industrial credit have not developed, and indeed, that evidences of debt to finance intermediate credit needs are difficult to find, implies neither that these credit needs are relatively small nor that they have not been supplied by our financial institutions. Rather banking legislation has favoured financial assets in the form of short-term commercial notes, and banks as a consequence have tended to finance longer term demands by advancing funds under this form with the understanding that these notes would be renewed on maturity. A Program of Financial Research, National Bureau of Economic Research, New-York, 1937.

one's capital for any length of time, which in view of these very conditions, did not appear attractive to the investor. There was no compensation for the risk involved, as any larger profits would be taxed away by Government and it appeared preferable to buy easily marketable Government securities with a lower, but safe income and often free of taxes. Government thus able to command over large funds was obliged and compelled to substitute its paper for that of industry.

This phenomenon, most apparent in the U.S.A., indicates a trend, as previously mentioned, towards the nationalisation or socialisation of banking, and by its implications, partly also of industry, a prospect which arouses the opposition of bankers and manufacturers alike. It is this fear which probably colours somewhat the debate on the desirability of special Government credit facilities for industry.

But the contention that the facilities made specially available have not been made really use of by the public for which they were designed, requires further close examination with regard to the reasons. It comes not only from the U.S.A. In England and Sweden similar complaints are heard, and the Financial Committee of the League of Nations, after reviewing in 1939 the special facilities for medium-term credit in nine countries, comes to the conclusion that "the small volume of credit extended does strongly suggest that there is no great unsatisfied demand at the present time," and that "where gaps exist in the financial machinery, they are narrow and are gradually closed." But they likewise observe that owing to rapidly changing conditions, not only lenders are reluctant to extend credits, but business is reluctant to borrow for long periods. The Committee finally agree that there are impediments in the supply of equity capital, as distinct from medium-term credit to industry, which they mention as requiring the most serious consideration.

The war has interrupted the discussion, and has prevented, for the time being, the following up of the present Survey of Credit to Industry by an Enquiry into the effectiveness of the measures here recorded. This must be left for a future date.

It would be unwise at the present juncture to speculate about the future. But one can safely assume that under the conditions of post-war reconstruction the present trend of Government intervention in the supply of Credit to Industry will be strengthened, whatever economic and political system of Government may prevail after this war.

*Jerusalem, August 1941.*

KURT GRUNWALD

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