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REPORT OF NATIONAL POWER POLICY COMMITTEE

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A REPORT OF THE NATIONAL POWER POLICY COMMITTEE WITH RESPECT TO THE TREATMENT OF HOLDING COMPANIES

MARCH 12, 1935.—Referred to the Committee on Interstate and Foreign Commerce and ordered to be printed

To the Congress of the United States:

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

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

I have been watching with great interest the fight being waged against public-utility holding-company legislation. I have watched the use of investors' money to make the investor believe that the efforts of Government to protect him are designed to defraud him. I have seen much of the propaganda prepared against such legislation—even down to mimeographed sheets of instructions for propaganda to exploit the most far-fetched and fallacious fears. I have seen enough to be as unimpressed by it as I was by the similar effort to stir up the country against the Securities Exchange bill last spring. The Securities Exchange Act is now generally accepted as a construc-

tive measure, and I feel confident that any fears now entertained in regard to proposed utility holding-company legislation will prove as groundless as those last spring in the case of the Securities Exchange Act.

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

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

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

The disappearance at the end of 5 years of those utility holding companies which cannot justify themselves as necessary for the functioning of the operating utility companies of the country is an objective which congressional leaders I have consulted deem essential to a realistic and farsighted treatment of the evils of public utility holding companies. For practical reasons we should offer a chance of survival of those holding companies which can prove to the Securities and Exchange Commission that their existence is necessary for the achievement of the public ends which private utility companies are supposed to serve. For such companies, and during the interim period for other companies, the proposal for a comprehensive plan of public regulation and control is sound.

But where the utility holding company does not perform a demonstrably useful and necessary function in the operating industry and is

used simply as a means of financial control, it is idle to talk of the continuation of holding companies on the assumption that regulation can protect the public against them. Regulation has small chance of ultimate success against the kind of concentrated wealth and economic power which holding companies have shown the ability to acquire in the utility field. No Government effort can be expected to carry out effective, continuous, and intricate regulation of the kind of private empires within the Nation which the holding-company device has proved capable of creating.

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

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

FRANKLIN D. ROOSEVELT.

The WHITE HOUSE, *March 12, 1935.*

REPORT OF NATIONAL POWER POLICY COMMITTEE ON PUBLIC-UTILITY HOLDING COMPANIES

This report does not attempt to give a comprehensive factual analysis of the position of the holding company in the structure of the electric and gas industries. Those facts have been compiled by the Federal Trade Commission in the course of its thorough investigation of public utility holding companies, and the results of that study have already been reported to the Senate. We are informed that a special report has been prepared for the House Committee on Interstate and Foreign Commerce by Dr. Walter M. W. Splawn, now a member of the Interstate Commerce Commission.

Numerous studies have already shown, and the report of the Federal Trade Commission further demonstrates, that the concentration of control in the electric and gas industries through the device of the holding company has assumed tremendous proportions. While the distribution of gas or electricity in any given community is tolerated as a "natural monopoly" to avoid local duplication of plants, there is no justification for an extension of that idea of local monopoly to embrace the common control, by a few powerful interests, of utility plants scattered over many States and totally unconnected in operation. Such intensification of economic power beyond the point of proved economies not only is susceptible of grave abuse but is a form of private socialism inimical to the functioning of democratic institutions and the welfare of a free people. In 1933, after an investigation of stock ownership in railroads, Congress amended the Interstate Commerce Act to curb the further use of the holding company as a device for the control of the great transportation systems (U. S. C., title 49, sec. 5). The Banking Act of 1933 provides a measure of control over holding companies in the banking field (U. S. C., title 12, sec. 61). Congress has not yet taken any action regarding the holding company in the gas and electric utility field.

In 1925 holding companies controlled about 65 percent of the operating electric utility industry. By 1932 thirteen large holding groups controlled three-fourths of the entire privately owned electric utility industry, and more than 40 percent was concentrated in the hands of the three largest groups—United Corporation, Electric Bond & Share Co., and Insull. Even these three systems are not totally independent. United Corporation has a stock interest in Electric Bond & Share Co. Into the latter system have been brought certain Insull properties since the collapse of the Insull empire. In 1929 and 1930 twenty large holding-company systems controlled 98.5 percent of the transmission of electric energy across State lines.

The rise to power of the large holding company in the gas utility industry has been no less startling than in the field of electricity. In 1932 eleven holding-company systems controlled 80.29 percent of the total mileage of natural-gas trunk pipe lines, upon which the gas fields are almost completely dependent for the marketing of their product.

By the pyramiding of holdings through numerous intermediate holding companies and by the issue, at each level of the structure, of different classes of stock with unequal voting rights, it has frequently been possible for relatively small but powerful groups with a disproportionately small investment of their own to control and to

manage solely in their own interest tremendous capital investments of other people's money. And the ownership of the stock of operating companies is but one of many devices by which a few clever men have woven the amazing network of control and influence with which they have enveloped and entangled large sectors of the gas and electric utility industry. Voting trusts, interlocking directors and officers, management contracts, the control of proxies, and other means, all have been facilely used to bring about a concentration of control in fewer and fewer hands.

The growth of the holding-company systems has frequently been primarily dictated by promoters' dreams of far-flung power and bankers' schemes for security profits, and has often been attained with the great waste and disregard of public benefit which might be expected from such motives. Whole strings of companies with no particular relation to, and often essentially unconnected with, units in an existing system have been absorbed from time to time. The prices paid for additional units not only have been based upon inflated values but frequently have been run up out of reason by the rivalry of contending systems. Because this growth has been actuated primarily by a desire for size and the power inherent in size, the controlling groups have in many instances done no more than pay lip service to the principle of building up a system as an integrated and economic whole, which might bring actual benefits to its component parts from related operations and unified management. Instead, they have too frequently given us massive, overcapitalized organizations of ever increasing complexity and steadily diminishing coordination and efficiency.

For all this concentration so dangerous to his democracy, the American consumer pays the bill. With a large and often unsound capitalization to support, many holding companies have not been able to be satisfied with reasonable dividends on the securities of their operating companies. They have compelled the consumer to bear the burden of various fees, commissions, and other charges which they levy against their subsidiaries. They take fees, usually a percentage of the gross revenues of the subsidiary, under contracts for the performance of management, engineering, accounting, publicity legal, tax, and other general and special services. They make profits on the sale of materials to their subsidiaries. They make profits from construction contracts which they negotiate and perform for their subsidiaries; they often control one or more construction companies to which is awarded most of the building work for the entire system. They take fees for handling the issue, sale, and exchange of securities for their subsidiaries.

These profits and fees, when dictated by the holding company sitting on both sides of the transaction, in nowise represent bargains freely and openly arrived at by subsidiary companies on the basis of the lowest cost in a competitive market. There is no semblance of arm's-length bargaining. Competition for construction and other work of public-utility companies in many instances has been substantially eliminated. Independent private enterprise has been crowded out in favor of a none too benevolent private paternalism.

The promoters of the holding-company patchwork have too frequently burdened the operating industry with security charges far beyond the value of the holding company to the industry. Many

holding-company securities were issued to acquire new properties, frequently from corporate insiders, at prices often far in excess of any reasonable estimate of the value of those properties and seemingly without heed of the fact that utility properties are required to serve the public under a limitation, in theory at least, of a reasonable return on "value."

The investigation of the Federal Trade Commission shows, for instance, that in 1929 Associated Gas & Electric Co. acquired 94,005 shares of Barstow Securities Corporation, a utility holding company which controlled General Gas & Electric Corporation which controlled a chain of operating companies. The price paid was $531.04 a share. According to the accountants of the Federal Trade Commission, the stock had a book value of $2.97 per share and had earned $4.16 per share in the preceding year. The acquisition was a victory for Associated Gas over the United Gas Improvement Co. (a member of United Corporation group) which had bid against Associated Gas for the property. To finance its purchase of these Barstow securities, with annual earnings of about $391,000, Associated Gas incurred obligations whose annual interest charges were $2,800,000. The example is an extreme one, but acquisitions of properties were common at two, three, or more times their book value, an entry not likely to be understated in an industry where returns are regulated in relation to property value.

Such transactions obviously have no place in a sound economy. They do not serve orderly investment of the Nation's capital in the utility industry. Instead they inject a temporary and unhealthy stimulation into the securities markets which discourages intelligent permanent investors. Real development springs from stable and predicable markets. But stability in the investment market does not very often make a $2.97 stock worth $531.04, nor does it bring old era profits to investment bankers and brokers. Fundamentally the holding-company problem always has been, and still is, as much a problem of regulating investment bankers as a problem of regulating the power industry. As the Federal Trade Commission states in its report:

> Professional managements apparently often give greater attention to the counsel of bankers than to the interest of widely scattered security holders who are the equitable owners of the company so managed * * * In the heyday of holding-company exploitation just prior to the depression, investment bankers not only furnished financial aid when requested by holding companies, but solicited it and came to depend upon holding companies for business.

It is little wonder that these financial holding-company securities have so frequently turned out to be poor investments, for which many investors were induced to exchange their relatively well-secured obligations and stocks of operating utility companies. Too late the investor discovered the difference between the regulated operating companies and unregulated holding companies, and learned how much of his money had been wasted in feeding the hopes and greed out of which vast utility empires were conjured, and how little used to build up the utility enterprise.

Determination of the actual investment in utility properties is the very foundation of any intelligent public regulation of the rates of privately owned and operated utilities. No realistic determination of that kind can be made while holding companies may acquire

properties and securities and engineer their transfer through many corporate conduits at fictitious prices. While Federal legislation does not try to regulate intrastate consumers' rates, it can help create conditions under which State legislation can establish rate structures based upon an objective and administratively workable standard of the "prudent investment" in the properties rather than upon the grossly unfair and unreliable variables of "fair value" and "reproduction cost."

We accept the view expressed in the minority report of the New York Commission on Revision of the Public Service Commissions Law that the decisions of the Supreme Court do not preclude State legislatures from working out a rate policy for the future, which, as to new properties and additions, will be based on the prudent investment in the properties. That has been the accepted policy in Massachusetts and California and was the policy adopted by Congress in the Federal Water Power Act. In the case of properties already dedicated to the utility industry at the time of the adoption of such a policy, the investor and consumer may have to accept "fair value", which, realistically, is nothing more than negotiated or arbitrated value. But in our judgment Congress and the States, within their respective jurisdictions, are free to determine once and for all the "fair value" of existing properties at a particular time and protect both the investor and consumer by providing a definite and predicable rate base for the future.

Substantial strides in this direction can be made now by Federal legislation which will control the accounts, security transactions, and investments of holding companies in relation to the actual prudent investment in the underlying utility properties. The ultimate effect of such legislation should be to encourage holding companies thus freed from excessive capital burdens to adopt a low-rate policy for their operating companies in their own interest. Lower rates and the greater and more economic use of gas and electricity by agricultural, domestic, and industrial consumers implied by lower rates are a necessity for the continued growth of a great industry and for the realization of its full possibilities.

Attempts by State commissions to protect the consumer from the burdens which holding-company practices have imposed upon him have been, and practically always must be, largely unsuccessful. The public-utility holding companies have become Nation-wide institutions. Their subsidiary operating companies are located in every State. Electric Bond & Share Co. has operating companies in 36 States and 8 other systems have units in 11 to 29 States. Many holding companies have affiliations, sometimes amounting to control, with banking interest, construction companies, coal mines, newspapers, and other interests. Their securities are widely marketed by use of the mails and the instrumentalities of interstate commerce to investors throughout the country. Holding-company operations are too extensive, State commission powers and funds too limited, to make thorough and effective State action possible. And usually the holding companies have purposely arranged their organization and operations to keep out of reach of State regulation; their lawyers have challenged the jurisdiction of such regulation. Generally a holding company itself is incorporated outside the States in which its operat-

ing companies are located and carefully does not do business within those States in a manner which will give State commissions technical power to reach the books and records of the holding company. Even if obtainable, however, such books and records will be comparatively unintelligible and even misleading until uniform accounting methods are made compulsory. There is the further difficulty of allocating the appropriate proportion of the cost of holding-company activities to its subsidiaries in a particular State, coupled with needless waste in having the process duplicated in State after State. These difficulties of State agencies are so fundamental that not even interstate compacts—assuming they could be evolved—can make State regulation practically effective without supplemental help from a Federal law.

The only practical control over public-utility holding companies will be one which can directly reach the holding company itself and supervise its security structure and its use of capital and make possible over a period of time the elimination of the holding company where it serves no demonstrably useful and necessary purpose. Only in that way can Government protect the investors who supply that capital and the consumers who must bear its cost. The need of Federal control is no less imperative because all holding companies have not been guilty of all the abuses that have been indulged in under the holding form. The abuses have not been spasmodic only, but sufficiently widespread to necessitate legislation to protect the public against an inherently dangerous corporate device, which, unregulated, reflects unjustly on guilty and innocent alike.

We therefore recommend Federal legislation regarding public-utility holding companies. Such legislation should eradicate disclosed abuses, prevent the use of the holding company and affiliated interests to obstruct state regulation of operating companies, and make possible the elimination of the holding company where it serves no demonstrably useful and necessary purpose, without undue dislocation of investment or the loss of operating economies which flow from economically and geographically integrated public-utility systems.

1. The ultimate purpose of the legislation should be the practical elimination within a reasonable time of the holding company where it serves no demonstrably useful and necessary purpose. But the amount of reorganization, transfers of assets, and distributions in dissolution required for the dismantling of our huge holding-company systems is so great that the task of elimination cannot be accomplished in a year or two without possibly too great sacrifice of apparent values. Furthermore, it seems administratively advisable that every opportunity be offered the owners of holding-company securities to work out their own processes of dismantling. That opportunity should, of course, be vigilantly guarded to protect the average investor from the exploitation threatening him almost as a matter of course under our usual methods and mores of corporate reorganization. In destroying the abuses of the holding companies the Government must not leave great groups of helpless investors to the certain abuses of extensive hurried corporate reorganizations. The dominant groups who have ruthlessly plucked the investor in promoting some of these huge holding companies must not be allowed to pluck him again as reorganization managers.

On the other hand, if the disappearance of the holding-company excrescence is to be realistically expected at the end of a given period, there must be a constant pressure on the managers of holding-company enterprises persistent from the very begin ing of that period, to insure a continual process of whittling down complicated capital structures and of disassociating operating properties not related to each other geographically or econom cally. Only such a continual process can guarantee that at the end of the given period the holding companies will have been dismantled into organizations simple enough in structure to be readily dissolved if they are to dissolve, or sufficiently shrunk and integrated for operating purposes so that they may readily be transformed into operating companies. Without such a dismantling process holding-company liquidation at the end of the period may well cost the same sacrifice of investors' interests as would be required to effect their liquidation a year from today. The devices recommended below are devices to effect that continual pressure to compel that continual dismantling process.

2. To attain the flexibility desirable for the handling of this complicated problem in a realistic and prudent way, Federal control should be vested in an administrative commission. Every holding company should be required to register with this commission if, either directly or through subsidiary companies, it employs the instrumentalities of interstate commerce to distribute securities, to transmit or transport electric energy or gas, to perform contracts, or to carry on any business. Furthermore, every holding company should be required to register if it has outstanding securities which were distributed to the public through the channels of interstate commerce, since by such distribution it has set into motion forces which are still active and are nationwide in their effect upon both consumers and investors. At the time of registration, the companies should be required to file with the commission detailed information concerning their financial condition and operations, their security structure, their control over and relations with subsidiaries, and their affiliations with other interest of whatever kind. The definition of a holding company should be broad enough and flexible enough to reach every company which in fact controls public-utility companies, whether or not that control be dependent upon a specified security ownership. Federal registration provides the legal mechanism for controlling the activities of registered holding companies and their associate interests.

3. The issuance of new securities by holding companies should be adequately supervised by the commission so that in reorganizations and rearrangements of properties an uninformed investing public shall not have foisted upon it securites which are in no sense secure and carry little or nc voice in management. Security issues should be limited to purposes necessary in the public interest, which accords with the ultimate purposes of the legislation; and each security issued should bear a proper relation to the capital of the company, its existing securities, the securities of the companies in a geographically and economically related system, and, above all, to the prudent investment in the properties of the issuer and its underlying companies. There should be an end to the pyramiding of holding-company securities. Except for necessary discretionary power in the commission in the

case of refunding issues, new securities should be limited to par value common stock, with appropriate voting rights, and to first-lien bonds, i. e., bonds having a first lien either on physical assets of the issuer or upon first-mortage bonds of operating subsidiaries. In this as in almost every phase of the holding-company problem, the ultimate interests of consumers and investors are identical. In a system burdened with overcapitalized and debt-ridden holding companies, the consumers of operating subsidiaries have to support the topheavy structure by paying high rates and by enduring poor service from inadequately maintained plants.

4. The commission should have complete control over the acquisition of new securities and properties by holding companies and others in holding-company systems in the course of reorganizations and rearrangements of properties. New acquisitions should not be allowed unless the applicant can clearly demonstrate a resultant economy and efficiency from the connection of naturally related and interdependent properties. The commission should have power to prevent acquisitions at prices which do not bear a proper relation to the capital prudently invested in the underlying utility properties, or if the acquisition would tend to create monopoly or restraint of trade in the exercise of control of public-utility companies.

5. Holding companies should be restricted as soon as practicable to the business of operating and of owning the securities of public-utility properties; they should not be permitted to engage in non-utility or speculative ventures. Electric utility and interstate gas transmission or production should be divorced from common control. Similarly, domestic and foreign utilities should be separated. Unless approval of a State commission be obtained, the commission should not permit use of the holding-company form to combine a gas and an electric utility serving the same territory where local law prohibits their combination in a single company.

6. Holding companies should immediately be prevented from borrowing from sub holding companies or from operating companies in the same holding-company system. The commission should have power to prevent holding companies and their subsidiaries from paying dividends out of capital or unearned surplus, or from paying any dividend on a security or acquiring or retiring their own securities if such action would endanger the financial integrity of the system or impair the working capital of operating companies. The commission should have authority to prevent the sale of utility assets and securities at prices unfair to investors or in situations where separation of the properties would imperil the efficient interconnection of companies within the group.

7. All other loans and transactions within the systems and with affiliated interests, and the fees paid in connection with such transactions, should be carefully scrutinized and publicized. To prevent the continuing of present abuses and the sheltering of new ones in even subtler and more elusive forms of intercompany relationship that that of holding-company control, it will be necessary, in handling intercompany transactions, carefully to define affiliations amounting to less than control. In speaking of these relationships, the Federal Trade Commission has said:

> the inquiry early disclosed the fact that such companies (affiliates) were frequently used as vehicles whereby certain deals dictated by certain holding companies

could be given the appearance of straightforward conservative business transactions, and whereby only a few company executives would know their true significance.

8. The holding company should immediately be required to divest itself of any interest in the business of issuing, underwriting, and creating new security issues for itself or controlled companies, and should not be allowed to derive fees or commissions from security transactions. The holding company in the role of banker is in dangerous conflict with the interests of its investors and consumers.

9. All service, sales, and construction contracts not performed by independent companies should be performed by companies or associations organized on a strictly mutual basis to insure the performance of their work at cost. The commission should have continuous supervision over these mutual organizations to require adequate reports, uniform accounts, the maintenance of equitable allocations of costs among the companies served and the assurance of efficient and economical operation. The commission should make a study and recommendations to State commissions and public utilities concerning the nature, costs, and economies of various kinds of services rendered to different types and sizes of utilities. The provisions on service, sales, and construction contracts and those regarding other intercompany transactions should put an end to profits from intercompany transactions in a holding-company system. The returns of holding companies would be limited thereby to dividends from their holdings in economically and geographically integrated utility properties.

10. Holding companies should be required to make periodic and other reports concerning their own and their subsidiaries' financial condition and operations. Such reports should be based upon uniform methods of accounting prescribed by the commission, with due regard for the power of the States to prescribe the accounts of operating companies. The requirements concerning reports and accounts should extend to affiliates regarding their transactions with affiliated operating and holding companies. With uniform accounts available to the commission, to State commissions, and to the public, misleading and unsound accounting practices should lessen appreciably, and it should be possible to make intelligent comparisons of performances and to ascertain the investment behind holding-company securities.

11. The commission should study existing systems so that they may be simplified by the elimination of unnecessary corporate complexities and of properties which do not fit into an economically and geographically integrated whole. Simplification and reorganization of holding-company structures, making possible within a reasonable period the practical elimination of the holding company, should be conducted under the commissio'ns supervision over a period of time to prevent undue losses to security holders from investment dislocations. Voluntary action by the companies should be encouraged as much as possible, but the commission should be empowered to issue orders compelling necessary divestments, dissolutions, and reorganizations. Such orders should be enforceable in the courts, and the commission should act as trustee to effectuate necessary divestments, reorganizations, or dissolutions. The commission should have power to institute proceedings for the reorganization of holding companies

under section 77B of the Bankruptcy Act, as amended, and to act as trustee in any proceeding concerning such companies under said section 77B, or receiver in any Federal equity receivership of such companies. No reorganization plan under the Bankruptcy Act, or otherwise, should be effective unless it has been prepared or approved by the commission. Solicitation of proxies, consents, or deposits in connection with a reorganization plan should be prohibited until after a hearing on the plan before the commission. Such solicitation should also be barred unless accompanied by such information regarding the plan, the commission's report thereon, and the interests of the persons sponsoring the plan as will inform the investor adequately of his rights and the effect of the plan on his position.

12. The exemption, under the revenue act, for dividends received by corporate holding companies and affiliates on the securities of public-utility companies and other holding companies might be partially removed. The increased tax occasioned by such a partial removal of this exemption might stimulate active cooperation by holding companies in eliminating intermediate corporate layers and will discourage the use of the holding company as a device for the control of electric and gas utilities except where its use will result in clearly demonstrable economies sufficient to compensate for the tax.

Respectfully submitted.

HAROLD L. ICKES, *Chairman.*
FRANK R. MCNINCH,
ELWOOD MEAD,
T. W. NORCROSS,
MORRIS L. COOKE,
ROBERT E. HEALY,
DAVID E. LILIENTHAL,
EDWARD M. MARKHAM.

Attest: JOEL DAVID WOLFSOHN, *Executive Secretary.*

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