

Paul Smith's, N. Y.,  
Friday, August 27, 1926.

Report of the Newspaper Conference.

I didn't have any talk with Ex-Senator Jackson of Maryland about politics. He is an old resident of this section. I think he told me that he and Mrs. Jackson had been coming up here for 17 years. They have a camp over on Loon Lake. The Senator has been in rather poor health lately. I knew he was up here and invited him and Mrs. Jackson to have lunch with my wife and me. It was purely social. I think he is the National Committeeman from Maryland, but I didn't have opportunity to say anything to him about politics in Maryland or anywhere else. While he seemed to be very much improved and was looking well, I judged from what he told me when he called on me in the office some time ago that he hasn't been in Maryland all summer and wasn't taking any part in any political campaign down there. But that was just an inference that I drew. He didn't say anything about it to me and I didn't say anything about it to him.

I expect Ambassador Sheffield and Mrs. Sheffield and perhaps their son will come up here to visit me before I go back to Washington. I think he has been in Washington to see Secretary Kellogg and I was advised that he is going to go to Atlantic City with his wife and son, so I don't know just how soon he will come up here. I would like to see him and talk to him some time about the Mexican situation and get, of course, his firsthand views about it. Mr. Sheffield as is well known is a very able man, a trained

lawyer, has made an excellent Ambassador and has managed a very difficult situation in Mexico with great skill and discretion, and any representation that he might make to me regarding what policy ought to be adopted in Mexico would have very great weight with me. I asked him to go there at a considerable sacrifice, and for a man who had the large legal practice that he had in New York I feel that he has performed a very distinct public service in making a sacrifice of that kind. Last year when he was here he came up to call on me in Massachusetts while he was going by there on a boat trip he was having. He had had a serious operation, from which I understand he has entirely recovered.

I don't know that there is anything I can say or add to such information as the press may have secured from Representative Will R. Wood about the Congressional campaign. I didn't go into the details of it with him. He told me that the outlook from his position as Chairman of the House Campaign Committee was entirely satisfactory. He thought there wouldn't be any doubt about the election of a Republican House.

I haven't seen the article of Professor Ripley. I have seen some references to it in the press. So I don't know just what it is that he suggests that the Federal Trade Commission could do or should do or ought to be authorized to do by law. I am very keenly alive to the fact that we have in this country now about 20,000,000 security holders who have made investments in the business concerns of the country, and I want to have everything done that can be done adequately to safeguard their interests.

That is a matter that I have had under consideration for a considerable length of time. I had a conference with Professor Ripley last winter relative to some subject that he had made suggestions about in a magazine article, about the issuance of stock that didn't have voting powers, and I understood that very largely I think because of the position that he had taken in his article in arousing public opinion that the listing committee of the New York Stock Exchange had indicated that they would look very carefully into the affairs of corporations that asked to list stock of that nature. Of course any one that gives the matter a moment's thought would recognize the great difficulty of the Government in undertaking to say what securities are good or sound or some equivalent word and what are not. That has usually been left to the judgment and discretion of Commissions and various states have, I think, adopted what are known as Blue Sky laws. Of course there is a good deal of difference between saying that a security is good and sound and saying anything about the prospective price at which it may sell on the market. I think we all recall that Government bonds which were issued in time of War depreciated in market value quite a good deal. They have since regained their position and I think all of them now sell at par or better, some considerably better. That is perhaps an extreme example of the difficulty of making any future estimate ~~to~~ as to what price a security may sell, even though it would have to be recognized as the best security in the world. So that I assume that what Professor Ripley is discussing is the question of corporate financing and the management of its business and the opportunity of the ordinary investor to get

accurate information in relation to his investment. Any remedial legislation or action that might be taken to secure that result would have to be done keeping clearly in mind that these concerns are not national concerns, but that they are State concerns. They get their authority under the law and by charters that are granted to them by the various States. There is a little difference about that in relation to the railroads, but generally speaking all of our industrial concerns secure their rights and powers from a state charter and not at all from the laws of the United States. So that the United States doesn't have very complete jurisdiction over them. I should want to give some more thought and study than I have to the question to see where the line should be drawn and what action ought to be taken by the states and what might properly be done by the Federal Trade Commission. Broadly speaking, the Federal Trade Commission has jurisdiction over interstate commerce, that is jurisdiction over the commodity that an individual or a state corporation has created and which they propose to dispose of through the channels of interstate commerce, and having jurisdiction over the product of the corporation is quite a different thing than having jurisdiction over the finances and the corporate practices of the corporation. So that I should rather conclude that the best and most adequate protection that security holders would have through publicity of the financial affairs of corporations would have to be brought about by the passage of state laws, rather than by the passage of laws by Congress or the actions of any Federal agencies. Undoubtedly the Federal Trade Commission has some juris-

diction over the finances, but it must be incidental I assume to interstate commerce.

Press: He says in his article that there is a case stated before the Supreme Court to test whether the Federal Trade Commission has that power over finances.

President: Well that rather confirms what I say, that it is a question that would need considerable study and investigation in order to determine it, but I should think it would be plain that whatever powers, as I stated the Federal Trade Commission has, would be incidental in some way or other to interstate commerce. I think it has been decided that the securities that are issued by a corporation are not interstate commerce. I suppose it is possible that they may be made such when they are sold from one state to another. There again you come to the product and not to the action itself. The more I think of it, the more I come to the conclusion - I have been giving a little thought along that line until I began to discuss it here - that any real remedy to secure publicity or give the shareholder the right to know what is being done with his money, how the business of his concern is being conducted, would have to come almost entirely from state action rather than from national action. Professor Ripley is a man of large experience and recognized ability, and he is an expert on matters of this kind, and any suggestions that he might make would be entitled to very careful consideration before they could be dismissed, and any theory that he

might propound as to the powers of the National Government would likewise be entitled to very careful consideration before it could be dismissed as unfounded.

Press: The Professor also seems to indicate that one of the difficulties now is that there are such a large number of forms of reports. Would that be remedied in any way if they had similar statements?

President: Well, those forms are all forms that are required by the state laws. I came in contact with that in my law practice and my experience in Massachusetts. The Commissioner of Corporations there makes up the legal forms on which corporations that are incorporated under the laws of Massachusetts and those which are incorporated under the laws of other states that come into Massachusetts to do business have to make reports.

Press: Did you have a hand in the passage of the Massachusetts Blue Sky law?

President: ~~I~~ I don't recall that I did. I am not sure about that one way or the other. I know that there were some bills of that kind while I was in the General Court and I think there were some brought up while I was Governor. We had some regulations and restrictions there, but we didn't have that need so much in Massachusetts, because in order to come in there and do business corporations had for a long time been required to file certificates with the Commissioner of Corporations and make a complete disclosure, and those were made public, so Massachusetts wasn't a very fertile field under the law for the sale of securities that didn't have a firm founda-

tion to warrant the assumption that they were proper investments.

Press: He points out an example in his article that corporations ought to be required to file a balance sheet as well as an income sheet, and he said the Massachusetts law requires them to show the balance and and he thinks the reports ought to be more adequate, to show depreciation and so on.

President: That rather carries out what I have been saying, that where the state law is adequate and proper you get the result that Professor Ripley wishes to have and where ~~they aren't proper~~ they aren't adequate and proper I have considerable doubt as to whether the National Government can interpose to make it so. Whatever power it has would be under the Interstate Commerce laws to the Constitution. That is a broad power, but that relates generally to a commodity after it has been produced. I think the Court has decided that the mining of coal in and of itself was not interstate commerce, but after the coal is brought up on top of the ground and started to be shipped away then it becomes interstate commerce and the Federal Government has jurisdiction over it. But those are law questions and it is a well recognized principle of legal practice that advice is not to be given without first reading the document that the advice is to be given about and secondly, ~~xxxxx~~ without the consulting authority carefully investigating what the statutes may be, so what I have said would have to be taken with that qualification.