

4. The general problem of financing through public issues becomes increasingly difficult in the case of medium- and small-sized undertakings. Such concerns have trouble in placing public issues, whether in the form of shares or bonds. The investing public prefers to put its money into firms whose names are nationally known and whose securities are listed on an exchange. The success of a small undertaking is frequently dependent upon the ability of one person; and the individual shareholder is unable to exercise the constant supervision and control that capital participation requires in such circumstances. In the second place, the cost of issue and of preliminary investigation is, generally speaking, proportionately higher on small than on large amounts.

5. The small industrial concern in need of capital or credit has therefore been accustomed to rely on a few individuals or on local banks knowing the business and the management personally. Frequently, such firms are tempted to finance, through bank borrowing, risks which in their nature are the risks of ownership. Such risks are, however, unsuitable for ordinary commercial banks which operate mainly with short-term deposits; nor can these banks afford to tie up their depositors' funds for long periods in the form of fixed or semi-permanent investment.

6. Medium-term credits can legitimately be granted to industry where the funds will be used productively but where it cannot reasonably be expected that the original advance can be amortised in less than a period of some years. In so far as such medium-term credit requirements exist, it is important for the development of industry and enterprise that small borrowers should be able to cover them. If they rely, however, on short-term bank loans, with prospect of renewal, then not only is there a risk that banking advances will become frozen, but the borrower himself may, at a time of economic pressure, be called upon to repay outstanding financial debts within a period that bears no relation to the original purpose of the commitment.

7. There is therefore a presumption that some credit institutions should exist for the provision of medium-term credit to small- and medium-sized industry. Certain types of medium-term credit requirements can be met by non-banking institutions: for example, the export-guarantee institutions set up by many governments enable credit to be obtained for fairly long periods to finance exports; large producers with ready access to capital and credit sometimes lease equipment or sell it to small producers on a hire-purchase system; automobile finance and gasoline companies extend credit to purchasers and distributors for special purposes. But such initiatives have not covered the whole field, and in many countries special credit organizations have been set up for the provision of medium-term credit to industry.

8. It may be useful for us to summarize briefly the organization of this type of credit in the countries from which we have received information. It is hardly necessary to point out that the organization in each country reflects the peculiarities of its general financial structure and conditions and that it would therefore be misleading to attempt any comparisons between one country and another. Moreover, many of the institutions mentioned below go further than supplying medium-term credits: they make long-term loans and, in some cases, participate directly in the capital.

(a) *United States of America.*

In the United States, the principal source of medium-term credit to small industry up to the great depression was the local unit bank. Such local bank loans were sometimes secured by a short-term mortgage on real assets (a demand mortgage, or one running for one, three or five years) and sometimes were extended on a promissory note of ninety days to six months (with expectation