THE STOCK EXCHANGE TODAY

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REMARKS BY EMIL SCHRAM

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TO understand the securities laws, it is necessary to examine their background. They were the product of the public's wrath at what had happened in the financial markets. Much of that wrath was vindictive, and some of the vindictiveness was in the hearts of men intelligent enough to know how to get revenge.

A newly elected Congress, perhaps partly because it felt that the spokesmen for the financial industry were not as cooperative as they might have been, finally enacted laws more far-reaching, I daresay, than was first intended.

The laws, however, were popular from the first. The general public abstractly reasoned that Wall Street had been subdued. Some investors, possibly thinking that they had been wronged, were inclined to feel that they were being protected.

Those engaged in the securities business and the corporation executive, who found it more difficult and more costly and less convenient to finance his company, were dissatisfied, of course. But the minority's plight was such that it was powerless to do anything but grin and bear it. Complaints fell on deaf ears.

Business Probity Among Stock Exchange Firms Unexcelled

Acceptance of the principle of regulation by the financial community was delayed by an elemental fact. There was less business for the financial community to do. There were fewer orders to be executed; and the brokerage business lives on commissions charged for the execution of orders to buy and sell securities. Brokers, dealers and investment bankers saw the volume of their business shrink year after year, and some seriously thought the securities business was faced with extinction. For this some people blamed the securities laws and the collateral legislation of economic reform.

With the stock market again doing a reasonable volume of business, and with the physical machinery and personnel of our great financial centers deflated, there now is little complaint about the objectives of the laws.

Now that the principles of regulation have been accepted in financial quarters and elsewhere, it is possible to consider changes in the details of the securities laws in an atmosphere of more light and less heat.

There is no reason why the details of these laws should not be changed to remove unnecessary hindrances and give the securities industry the greatest possible freedom consistent with the public interest. In making amendments, however, we must not think of breaking down the bars against the evils and abuses which formerly existed. The manipulative system has been eliminated only at a great cost, and the price paid must not be in vain.

It is fair to say that the New York Stock Exchange today is exercising the function of being an orderly market for securities better than at any time in its history. It provides a convenient and efficient public market for the listed securities which have been issued in the past. That market is a free market in the sense that prices in it are not subject to artificial influences. The members of the Exchange through whom securities may be bought, sold and transferred are responsible men who take a great pride in their profession and who operate according to just principles of trade. The standard of business probity among Stock Exchange firms is not excelled by any business activity.

No Repetition of Mistakes of the Twenties

Furthermore, under Exchange requirements and under the Securities Exchange Act, there is an abundance of pertinent information available whereby an investor may judge, or have some competent person judge for him, the investment or speculative merit of any security which he wishes to buy or sell.

There can be no return to pools, manipulation, irresponsible offerings of worthless securities and the days of inadequate and incomplete information regarding the affairs of publicly-owned corporations.

We can refine the details of stock exchange regulation, and we can refine, and even redefine, other economic controls; but we must not permit a popular reaction to lead to a repetition of the mistakes of the twenties. If we do, the experiences of the thirties will recur. Reaction from reform, like reform itself, can go too far. That is one of the dangers of the next critical decade.

America and other great nations of the world cannot return to a simple laissez-faire economy, as some well-meaning people advocate. It is not in the picture. The whole social organism has changed. Society no longer is simple. It is complicated. Persons, families, communities, states, regions, continents and hemispheres no longer are economically or culturally independent. They are permanently and structurally interdependent.

We should not delude ourselves, even temporarily, about the extent to which government controls can be, or should be, cast off. This is especially true of the financial community, which now is convalescing after a long and painful illness. Time marches on. Great institutions march with it or fall by the wayside.

Public Service Objectives

The aims of the securities legislation of the early thirties were thoroughly sound. Briefly, they were to end manipulation and provide dependable information to the investor. The investor was to be protected against sharp practices. Let us keep in mind, however, that Congress had no intention of discouraging the investor from taking legitimate business risks.

Furthermore, I am confident that the committees which prepared the original securities legislation would have expected that the first laws would have to be amended after they had been tried out in action. Actually, there have been few amendments. This has been due partly to a fear that some of the desirable gains would be lost, and partly to the failure of the financial community to convince Congress of our public service objectives. It is time we began to do this. If we do, we will be making a contribution not only in the public interest, but in that of the financial industry as well. Whosoever would be great among you, let him be your servant.

The legislation under which our financial markets are regulated today was conceived and devised by men who mainly were without wide experience in the securities industry. It was largely the product of legal, academic and political brains. I marvel that it contains no worse defects.

I am told that at the time the bills were drawn, there was a disposition in Wall Street to adopt an attitude hostile toward the whole effort. There were men on the Interstate Commerce Committee of the House of Representatives and on the Banking and Currency Committee of the Senate who were anxious to cooperate with the securities industry.

I sometimes wonder if the representatives of Wall Street at that time, steeped in the traditions that the New York Stock Exchange was a sort of holy of holies, had absorbed the fundamental fact that their institution had become a subject of legitimate national concern. They knew that it was important to the few who derived a livelihood from it, but I suspect they were only dimly aware of the social and economic influence of the acts of its members.

Instead of serving a few thousand wealthy men, the security markets had begun to serve millions of investors of moderate means. Instead of being controlled by a few highly ethical and public spirited bankers, as they had been before the securities industry grew so rapidly, the markets had come under the influence of powerful new personalities, some of whom were devoid of social responsibility.

Wall Street a Lady Bountiful

Instead of having a financial intelligentsia for a clientele, the markets had come to serve millions of people, many of them lacking in investment understanding. Many uninformed people who could not afford it and who were unequipped to engage in it had become reckless speculators. Instead of recognizing that money, if kept, has to be earned and deserved in Wall Street just as anywhere else, the uninitiated flocked to brokerage houses convinced that a fortune could be had for the asking if they knew the right people and dealt with a wide-awake broker; and, unfortunately, the temporary experience of many seemed for a time to justify this impression.

To fix the blame for this situation now is academic. Looking at the stock speculation of the twenties in the cool light of history, a number of things are crystal clear. First, there was a great wave of speculation engulfing everyone, something like the Mississippi Bubble and the John Law incident. Second, the public and many brokers were victims of a great greed. Third, the liberal margin trading system and highly developed pool practices were enticing and made speculation too easy and too attractive to those who could not afford it and who were not equipped with sufficient judgment to engage in it. Fourth, neither the public nor the financial community realized the inevitable economic, social and even political consequences of what was going on. Fifth, no one in Wall Street or in Washington took the trouble to sound a clarion note of warning.

When the collapse came, we swung, America-like, from one extreme to another. Wall Street, only months before a Lady Bountiful, became the Big Bad Wolf. Its teeth had to be pulled, and there was a disposition to twist the tail during the extraction.

The years that followed the enactment of the securities laws probably would have been hard ones in the financial community even without the legislation. Volume of business would have declined, perhaps almost as sharply anyway, just as a result of the recoil from a speculative spree. But the reduction of volume incident to the end of pools and manipulation added to the depression in the securities industry. Naturally, there were years of mutual hostility and distrust between Washington and Wall Street. That was inevitable, especially in an era of revolutionary reform in which the laissez-faire system was being altered in America and all over the world.

An End to Suspicion and Bickering

It seems to me, however, that this period of mutual suspicion and senseless bickering between the nation's financial center and its political capital now is coming to an end. The adjustment in Wall Street is quite complete. The principle of market regulation is accepted. Everyone, and especially the New York Stock Exchange, is anxious to avoid a repetition of the conditions of the twenties.

Our capital markets have a highly important part to play in advancing the system of private enterprise. They are needed to facilitate the gathering and servicing of the risk capital necessary to rebuild a better world in which abundance shall be counted a blessing, scarcity a curse, stagnation a sin, and enterprise a virtue. We must again reward the venturesome and cease to encourage those who would bury their talents in a vain quest for unfruitful security.

How can the New York Stock Exchange, and the other registered exchanges, best function to make this contribution to the machinery of organized society?

In two ways. First, as efficiently operated markets for securities of our corporate enterprises; and second, as leaders in sound, modern financial statesmanship.

As a market, we are providing a meeting place for buyers and sellers of stocks and corporate bonds which have a current auction market appraisal of more than $60,000,000,000. This is the market value placed upon these securities by the investment public. This represents a large part of the wealth of America. There is hardly a family in the United States which does not own, directly or indirectly, some of the securities for which the New York Stock Exchange provides a free and open market.

The social responsibility involved in maintaining this market makes the New York Stock Exchange nothing short of a great service institution.

Intelligent Risk-taking Succeeding Uninformed Speculation

This auction market is the hub and center of a vast organization. For the convenience of those who use it, its member firms maintain branches in 313 cities in 45 states. The floor of the New York Stock Exchange is only minutes away from any telephone or telegraph instrument in the land.

On the floor of the Exchange, through highly trained, responsible and ethical brokers, any investor can buy or sell any listed security. There are traded the highest grade bonds and stocks, the most speculative, and all grades in between these two extremes.

The securities are clearly marked and carefully catalogued. Information regarding them is readily and conveniently available to everyone. Moreover, the various member houses of the New York Stock

Exchange maintain, at great expense, staffs experienced in advising clients regarding the nature and quality of listed securities.

These experts have at their finger-tips a mass of financial and general information as to the investment equity, the fundamental merit and the risks involved in buying or holding almost any type of security. Of course their judgment is not infallible, and no one can tell just how any risk will come out; but there is no market in the world where all the facts about the available goods are more readily or more quickly available than in this one.

Neither the New York Stock Exchange, nor any other exchange, can or does guarantee an investor against loss; but it can, and does, make the nature of the speculative risk an open book in so far as that is possible.

As a market we have always done a good job, but we have never before been able to do as good a job as we are doing now. This is because the manipulator has been eliminated and intelligent risk-taking is more and more taking the place of uninformed speculation. This is as it should be. It means that our business rests upon a sounder base. For this condition both the Exchange itself and the Securities Exchange Act share the credit.

Intrinsic Values of Securities Should Be Studied

Free markets are open to all, as they should be, but, as I have been pointing out for some time, access to them should not be abused. The country and our exchanges will be better off if those who are unable to judge intrinsic values, or who are unwilling to be guided by facts in appraising values, will stay out.

The New York Stock Exchange has agreements with the companies whose securities are on its list under which they make available periodically factual information as to their earnings and financial condition. The Exchange urges that all who use its facilities avail themselves of this information. It is of the utmost importance that all our members, their partners and employes, continue to emphasize this in their relations with their customers and potential customers.

Now, I am going to digress a moment and discuss a vital function of our market which of late has been neglected. There was a time when corporations habitually and importantly financed through the sale of stocks rather than through the sale of bonds. Shareholders received subscription rights, which they could either exercise or sell. It was healthy financing, and in the public interest. We should endeavor to stimulate its revival, especially in the post-war period.

This is of the greatest importance to our system of free enterprise. For if private investors do not provide risk capital either society will not progress materially or the government will supply the risk capital. And, if the government supplies the risk capital and thereby becomes the great entrepreneur, or risk-taker, the private incentive to assume risks in hope of gains gradually dies—and the state finally becomes socialistic rather than capitalistic.

One reason this war is costing the government more than the first World War is, of course, that the government has been doing most of our corporate financing. In the last war, corporations to a much larger extent financed themselves. At the end of this war, the government is going to own a great deal more bricks and mortar and machinery than it ever has owned before. This new war plant, unless it passes quickly into private hands after the war has been won, is a further threat to our enterprise economy.

Serving Investors a Great Social Responsibility

One way that the national debt may be reduced in the post-war years is to provide means whereby new private capital may be raised with which to buy from the government the bricks and mortar and machinery which have been acquired with public funds to prosecute the war. The reclaimable portion of this huge plant, if the system of private enterprise is to survive, should be owned by private investors and not by a benevolent but confused Uncle Sam. It is gratifying that high government officials have recently been emphasizing that private capital should have the opportunity to replace government financing and that private initiative should take up where government leaves off.

And so I say that our capital markets are about to enter upon a period of great usefulness and unlimited opportunity. We must see to it that these markets are kept clean and efficient. To the extent that their capacity to serve the public is restricted by defects in the regulatory laws, we must and will not hesitate to ask for appropriate amendment. But such revision must be justified by considerations of public welfare. We can expect no results from any appeal to Congress that is based upon nothing more than "please-help-me."

There is a great social responsibility involved in the business of serving investors. Nor do we dare fail in our function of facilitating the flow of capital for the free enterprise of a free nation. If we will maintain a statesmanlike attitude toward the problems of our business, I am confident that the future will be bright. We have earned the right to cast off our sack-cloth. We have made our business a shining example of indispensable public service, ably and honestly performed.

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