AMERICA EMBRACES A PEOPLE'S CAPITALISM

Remarks by Mr. Funston before the American Chamber of Commerce In London, England, October 25, 1956

On my recent departure from America I was thoughtfully provided with much sage advice designed to keep me out of trouble. There is, of course, always a certain amount of distilled wisdom packaged for today's traveler. The best of it, in theory at least, holds that everywhere the traveler "should remain a stranger, no matter how benevolent, and a critic, no matter how appreciative."

Well, it is wonderful to be in London. But I have fallen heir to such a warm reception, and to so many friendly questions that the detachment of a stranger is impossible.

My chief problem, of course, is how to describe the American panorama and answer the thoughtful questions some of you have raised. It is always a baffling business, this talking about one's country. An American humorist, the late Robert Benchley, faced the problem as an undergraduate at Harvard University. He was instructed to discuss the subject of international fisheries with respect to the United States and Great Britain. Benchley was desperate. He was also frank. For he wrote as follows: "I know nothing about the point-of-view of Great Britain, and nothing about the point-of-view of the United States. Therefore, I shall discuss the question from the point-of-view of the fish!"

With your permission, therefore, I will follow his excellent advice and tell you from my own point-of-view, and that of the New York Stock Exchange, about a major development which is shaping the American economy.

It is the gradual emergence of what we call a "People's Capitalism." It is evidenced, over the years, by the investment activities of millions of American people--most of them in the middle and lower income ranges. These individuals, through their direct and indirect investments, have come to hold the vital balance of economic power. In increasing numbers they have become the voting shareowners of the nation's corporations.

This development, evolutionary in its progress, is likely to prove revolutionary in its impact. It will provide the means of reaching the goals and broadly distributing the profits of an industrial system that is restlessly moving upwards. As such, the gradual creation of a "People's Capitalism" is an economic landmark without parallel. It has a tremendous appeal to the uncommitted people of the world.

I should like to tell you something about this concept of broader shareownership. The factors behind it go far towards explaining the American economy. And there may be, inherent in the quiet economic revolution occurring in the United States, implications that are likely to be felt throughout the world.

Let me make two things clear at the start.

The first is that in America we recognize that free enterprise means different things to the people of the world. Our brand of capitalism owes much to the United Kingdom and Europe. But its emphasis on competition and full corporate disclosure, on increasing production, and on higher wages and lower prices, has served to cast it in a somewhat different mold. And the form of America's free enterprise system leads to the second point I should like to make. It is that widespread shareownership, among all income classes, must be viewed presently as largely an American phenomenon. It is not something we can export like a cargo of machinery or a shipment of grain.

But by the same token, capitalism outside the United States is undergoing changes of its own. It is enjoying new growth and vitality while experiencing new pressures and tensions that seem to walk hand-in-hand with progress.

In Britain industrial production rose at an average yearly rate of 6 per cent from 1952 through 1955. This year, however, the rate of increase is likely to drop to about 1.5 per cent. An interesting corollary of this is that Britain's productive rise has been achieved by making maximum use of available labor. The point has been reached, however, where the labor force apparently will not expand quickly enough to assure a continuing high rate of production.

Broader Shareownership Viewed As Means Of Fulfilling The Logic Of Capitalism

Is there an answer to this? There may be no way to mass-produce a labor force, but as the London "Economist" noted in an editorial that was widely quoted in the United States: "If our children are going to produce twice as much as we do, they are not going to do it by working harder than we (for which they have not been trained), or by being cleverer than we are (perish the thought), but by having twice as many inanimate slaves to assist them. The way to plenty is to build up the national capital of machines, of buildings to house them in, of power to drive them, and of communications between them."

This, of course, focuses attention on the job that tomorrow's growth money must do. It is established, for example, that Britain's recent annual capital investment has amounted to about 2-1/2 billion pounds. It will require an additional 56 million odd pounds a year for the next decade simply to match the productive increase of the recent past. Well, British businessmen are acutely aware that high interest rates make long-term borrowing less and less attractive. And British citizens know that the erosive effects of inflation do not permit "risk-free" savings to keep up with living costs. Thus, the twin factors of inflation on the one hand, and the need for automation--for more productive machinery and equipment on the other, may serve to alter traditional savings and financing patterns.

Accordingly, you may be interested in how the United States has reacted to similar problems, particularly through our program to raise more equity money.

The American effort to spread corporate risks and rewards is nothing more than fulfilling the logic of capitalism. There is no law that says capitalism must be dynamic or even humane. But our greatest progress has come as these qualities have been developed in our system of enterprise. That system has become more creative as it became more truthful, more fruitful as it became more responsive to the general public. Broader shareownership is thus strongly embedded in democratic soil. It grows out of man's deep desire to own the tools with which he works.

We recognize, of course, that however strong its appeal, broader shareownership is also a subject capable of stirring an emotional storm. Britons, like many Americans have not forgotten the crisis of 1929. Thoughtful people in both our countries see in the bull market of recent years, and in the current level of stock prices, a parallel with the past.

I should like to tell you how we at the New York Stock Exchange feel about this. We do not, obviously, have the ability to fortell the future. Nor do we believe we have developed an economy permanently free of aches and pains and adjustments. But we do believe that research, greater productivity, and the hunger for a more abundant life make the long-term economic future bright in our country. And in reviewing the trend towards broader shareownership we are impressed by three things.

The <u>first</u> is that Americans investing in stock, by and large, are drawing on their excess funds--funds available <u>after</u> they have provided for emergency needs, and for their continuing obligations. The <u>second</u> is that we have built into our economy certain safeguards which should--when combined with sound investment practices--make a catastrophe like 1929 unlikely. The <u>third</u> is that when we survey the present, we are struck more by the <u>differences</u> between today and 1929 than by the similarities.

<u>Majority Of U.S. Investors Are In Market</u>
<u>For Long-Term, Using Credit Sparingly</u>

What are some of the differences? They include the fact that the production of goods and services, the amount of disposable personal income, and the level of corporate profits are running at a rate nearly three times higher than in 1929 even after allowing for price increases. And in the organized securities market, the differences are marked by high initial cash payments, which are now set at 70 per cent; by the presence of institutional investors, who have come to own large blocks of securities, and who play an important stabilizing role; by the elimination of sharp practices; and by the principle of full disclosure that is enforced by both government and the Stock Exchange.

Beyond these measurable facts we find something which is equally important: it is the healthy <u>attitude</u> of an overwhelming majority of investors. They are in the market not for a quick profit, but for the long term. They are emphasizing blue chip stocks, using modest amounts of credit, and often reinvesting dividends. The credit picture alone furnishes a revealing statistic: In 1929 borrowings by New York Stock Exchange Member Firms amounted to $8.5 billion. Our listed stocks then had an aggregate value of $65 billion. Today, similar borrowings equal only $2.4 billion, or less than one-third of the 1929 level. But our securities are worth more than three times as much--or $221 billion!

There remains, of course, the element of risk--and we are perfectly cognizant of this. The danger are real. And the Stock Exchange has devoted the bulk of its massive educational effort in recent years to outlining the risks and to describing sound practices for investors to follow--particularly those new to shareownership. We have, for example, tirelessly stressed that stock prices move down as well as up, and this message has been coupled with warnings against tips and get-rich-quick schemes. We have urged investors to understand their objectives, to assume no greater risk than their capacity to bear it, and, finally, to rely on the services of a reputable broker. In addition, we have made it abundantly clear that a steady income, cash savings and protection against the unexpected must come before shareownership.

But having taken these steps, it has seemed to us we are equally obligated to describe the way stock ownership can benefit the individual, contribute to higher living standards and add to the nation's economic vitality.

Enlightened Businessmen Are Developing Loyal Shareowners As Well As Customers

Our educational program has taken hold. We have set up information activities in leading cities across the country for people from every income class and every walk of life. We have produced several motion pictures and publish a monthly magazine and other timely periodicals of interest to the general public. Numerous advertising messages, prepared by the Exchange and its Member Firms, have appeared in newspapers and national magazines. The formation of investment clubs--in which small groups of friends study different securities and pool their investments--has been encouraged. New techniques like the Monthly Investment Plan have been started. This successful program makes it possible to invest as little as $40 every three months in securities listed on the New York Stock Exchange. Finally, a uniform statute was prepared to simplify the process of giving securities to children--a procedure which formerly had been very difficult. This statute has been adopted by 13 of our states.

Our educational program has received strong encouragement from businessmen who take an increasingly broad view of the corporate role. Like their British counterparts, enlightened American businessmen have learned that no company has the right to allow itself to be unexplained, misunderstood or publicly distrusted. Good public relations and good will have become synonymous with good sales. As a result, many companies have poured the same energy and imagination into building their corporate personalities as they have into mass-producing goods. In the process they have developed loyal shareholders who are also loyal customers. It seems to me there is an obvious link between this effort and the future.

The American economy demands enormous capital investments and highly-motivated entrepreneurs. In the next decade, for example, our corporations will require about $60 billions in new equity money <u>alone</u> to meet 1965 goals. This is a staggering sum--200 per cent greater than the comparable amount raised since World War II. And businessmen realize that this money can only come from a great mass of people--people who understand the facts of corporate life.

Great efforts have been made by American business management to help our people understand corporate operations. Based on the specific results we have seen, a similar approach can be recommended unhesitatingly to businessmen throughout the world.

<u>One Adult In Twelve Owns Shares In U.S.;</u>
<u>Two-Thirds Earn Under $7,500 Annually</u>

You may ask next, what are the results of these continuing efforts? A recent Stock Exchange <u>Census of Shareowners</u> paints a revealing portrait of the people who now own America's public companies. More than that, it mirrors some of the changes that have transformed our economic society.

Apart from the 115 million people who are saving by placing their money in institutions such as life insurance companies and pension funds, and thus are <u>indirect</u>

owners, direct ownership of corporate stocks is shared by 8,630,000 people, or one out of every 12 adults. This is a 33 per cent jump over four years ago when the first Shareowner Census was made. And if we add the owners of private corporations, the stockholder family swells to over 10 million.

Do these people constitute the wealthy? No indeed. The average American family income is about $5,000 a year. Well, 38 per cent of our shareowners earn less than $5,000 a year--and almost two-thirds of them earn under $7,500. On a comparable basis, and using 1952 figures, Britain's security owners also showed an income distribution which demonstrates that such ownership need not be limited to the very few or the very wealthy. Over one million British families held securities, and more than half of them were in the middle and lower income ranges. It may be, as the Russians have charged recently, that America's small stockholders do not individually "control" the companies they own. But the point is that they have a corporate vote. Collectively, they exercise great influence in company affairs. They benefit from profits, dividends and appreciation. On their own volition, as free men, they can purchase a share in almost any one of America's great businesses. This is a system that Russians cannot match in any respect…It is not for nothing that the economist, Frederic Dewhurst, has commented recently of the United States: "Of all the great nations, the one that clings most tenaciously to private capitalism has come closest to the Socialist goal of providing abundance for all in a classless society."

Finally, we have found that more women than men own shares, and that ownership is spreading out across the nation, particularly to small towns, where it is serving to strengthen the ties between Main Street and Wall Street.

This, then, is what we mean by a "People's Capitalism,"--millions of Americans sharing directly in business ownership. The concept is nowhere better illustrated than by America's largest corporation, the American Telephone and Telegraph Company. The 54 million shares of this $10 billion company are owned by 1,400,000 people. About 200,000 of them are actually workers employed by the company. Over half of AT&T's owners hold less than 100 shares, and the average holding amounts to 38 shares. No one individual holds more than one-thirtieth of one per cent of all its shares.

Though we are heartened by statistics like these we are neither complacent nor overjoyed by them. Our view is that in a country of almost 170 million people only a start has been made in soundly broadening the ownership base. We are convinced that much remains to be done before the full potential of a People's Capitalism is realized.

As we move to give further encouragement to the investment process there is an important feature of British economic life <u>we</u> would do well to consider. I have in mind that British investors are not normally penalized by an unjust tax on capital gains profits resulting from the holding of securities. In the United States, on the other hand, there is a stiff penalty for success. Long-term investors lose as much as 25 per cent of their profits under our capital gains tax. Faced with this prospect, funds often remain frozen at a time when growth money is badly needed.

<u>Creative Capital, Harnessed In America,</u>
<u>Available To Meet Some Of Europe's Needs</u>

From Britain's point-of-view, however, the single most important economic fact about America's rising shareownership is that creative capital, harnessed in America, is also available to help meet some of your great needs. To a larger extent than ever, this has been happening. America's investment appetite has been whetted by your prosperity. American dollars have been crossing the ocean as never before.

In the years since World War II our long-term private investments in Western Europe have doubled from $2.3 billion to $4.6 billion. About $3 billion of this represents investments by United States companies. Almost half of this is invested in Britain--a testimonial to our belief in the country's bright future. In addition some $1.6 billion has gone to purchase United Kingdom and Western European securities--including those of Rhodesian Selection Trust, Ltd., and Roan Antelope Copper Mines, Ltd., which are listed on the New York Stock Exchange.

Likewise, British and European funds have been attracted to America. The record shows some 4.5 billion dollars are now invested directly in our businesses--including almost a billion and a half dollars held by British nationals.

Barriers To Overseas Investments Hamper Investors Inclined To Venture Abroad

We view these figures as much more than a set of dry statistics. For the first 125 years of U.S. existence America was a capital-importing nation, relying on Britain and Europe for the money needed to develop our resources and our industries. I am confident that America now welcomes the opportunity to reverse this flow of funds.

However, the difficulties of stepping up the flow of investment capital present problems of the most baffling kind. On the one hand, American investors are attracted by bold opportunities, by the greater freedom your corporations frequently enjoy, and by the growing confidence in your economic and political stability.

On the other hand, risks that have little to do with the normal investment hazards haunt our foreign-minded investors. They have become accustomed, for example, to receiving from American corporations periodic reports and full information that includes the operations of subsidiary companies as well as the parent company. They expect the right to cast a corporate ballot. The "Economist" noted several months ago the following: "the corporate vote ought to be there. An equity without a vote is denied its full attributes. Intelligent investment is not conducted best by mutes." When periodic reports and the corporate vote are denied them, and when arbitrary exchange rates and difficulties in repatriating funds also must be reckoned with, only the most experienced and courageous investor is inclined to venture abroad. The average man is much more likely to choose securities of American or foreign companies similar to those listed on our Exchange.

Fortunately, more countries have moved to take down these barriers which are impeding investments and the free flow of capital among nations. Today 300 securities of foreign governments and companies are traded on the New York Stock Exchange. And in the past five years the volume of foreign shares traded on our Exchange has increased by 60 per cent and now accounts for about 3.4 per cent of our total activity.

I stress this development because as British companies step up their efforts to increase productivity and capture a larger share of the American market, does it not follow that they might also obtain a larger share of the American dollar available for investment?

You might wonder whether this can be done. How important is the prestige of a New York Stock Exchange listing, and what are the benefits of being closer to America's capital markets? Consider the example of Rhodesian Selection Trust. In the first year after this important African copper producer was admitted to trading the number of its U.S. shareowners grew more than ten times to 8,000. And in the Netherlands, the Royal Dutch Petroleum Company provides an even more striking illustration. Its shares have been traded on the New York Stock Exchange since 1954. An estimated 500 million American dollars are now invested in this enterprise--an amount so large it proved an important consideration in allowing the Netherlands Government to relax exchange restrictions on overseas investments by its own people. Moreover, the Company's recent action in splitting its shares is likely to prove decisive in making its securities even more attractive to America's investing public. At the Stock Exchange we have long encouraged corporate management to consider such methods as stock splits as a means of attracting investment dollars and broadening their base of ownership.

Hope Seen That More Overseas Companies

Will Make Shares Available In America

Other countries and companies will, we hope, follow the pattern of making their securities more readily available in America. As this happens it will serve to underscore the things I have outlined today.

Summarizing these points, I would stress this: our corporate wealth is owned, directly and directly, by a new force in America--the middle-income millions. More and more, these people are being informed about their opportunities to own their share of

American business. More and more, they are exercising these opportunities in a way that will help United States corporations meet their future needs for growth capital. America's people have enormous savings available for investment. Their goals are long-term. Their motives are to profit under a system of enterprise they understand. Many of them are willing to invest their funds abroad. In this context, they neither want nor expect favors. From the managements of overseas companies they ask only the detailed data on which to base their investment decisions, and the right to cast a corporate ballot. From foreign governments they expect only that normal business risks will not be compounded by arbitrary acts of government.

We are moving, in the free world, towards a future in which--because of our belief in man's freedom and in free enterprise--we can have an unshakable faith. We are in the broad sweep of history. And whatever our individual viewpoints--British, American, or simply that of Robert Benchley's fish--there is an exciting, stimulating challenge that lies ahead. It can be met by people dedicated to increasing the world-wide flow of private capital and to strengthening free economies everywhere.