REMARKS BY ARTHUR LEVITT
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Thank you, Larry *[Lasser]* for that kind introduction. Thank you all for coming to Washington.

I am sure that when most of you registered for this meeting weeks if not months ago, you looked forward to a few days of networking, learning about developments in the economy, and even taking some time to see the sites here in DC.

With the risk of sounding clichéd, September 11th changed all of that. Not only are there new geopolitical forces affecting the economy that need to be understood, but I have a feeling that you are here for other reasons. To be with friends and colleagues from all over this state and this nation. To be a part of what makes America vital – our entrepreneurial spirit. To move forward with the business of America.

Indeed, every day that we get on with the business of America is a day that we prevail against the terrorists. That is why you are here today. That is why I am here today. That is why I will not break my business commitments wherever they may be in our nation – or around the world.

All Americans have been touched by this attack, and those of us in the financial services industry feel especially affected. It was our colleagues and competitors who worked in those towers. Wherever we may live, our lives are interlocked with Lower Manhattan.

Although we all know Wall Street, after the attacks – after seeing the very worst in human nature – we learned something about the people who worked there that we may not have realized. We saw the very best of human nature.

We saw ingenuity – like that of Jan Demczur *[DEM-sir]*, a window washer trapped with five other men in an elevator stuck on the 50th floor of One World Trade Center. They pried the doors open only to be met by sheetrock. Remembering that it could be cut, Jan took out the only tool they had – his squeegee, and together they miraculously cut their way through a bathroom wall, made it to the stairs, and out of the building. Five minutes later, the tower collapsed.

We saw bravery – there were countless examples; some of them simple in their strength. Twenty-one floors above Jan Demczur worked Omar Rivera, a blind systems designer with the Port Authority. After the planes hit, Omar braved the screams he heard, the smoke he breathed, and the heat he felt to escape the burning tower. His guide dog, Salty, led the way, but their courage together carried the day.

And we have seen a community spirit all across our nation – from co-worker helping co-worker on the day of the attack, to the long lines at blood donations centers, to the flag flying high.

These are just some of the stories that have touched us all these past few weeks. They are testaments to the American spirit. Now, our national resolve and character is on display in the men and women, sailors and soldiers and pilots who are putting their lives on the line to defend our way of life. I know I speak for all of us when I say that our thoughts and prayers are with them.

In all of these, we see that the strength of the US is not just our resources, although they are vast. Not just our wealth, although it is great. It is our people. They are the key to whatever we are, have become, or will be.

In many ways, that is what so offends these terrorists. We welcome all to our shores, cherish diversity and dissent, and channel this bubbling cauldron of different races, faiths, and ethnicities into the most innovative country in the world. We have no dogma, just a faith in freedom. We strive to overcome intolerance. We greet progress, not with fear but with an insatiable curiosity to tap it.

Our economy, no less than our national character, is also only as strong as our people – as strong as investors' and consumers' faith in it. The confidence that the American people have in our economy and in our markets is the single-most important factor moving forward after September 11th.

In their own sick way, the terrorists understand this. Remember: they traffic in terror – creating fear in people to undermine the systems that make the modern world. By turning passenger jets into missiles, they made a nation afraid to fly. By poisoning our mail, they threaten to make a routine chore hazardous duty. And by sowing the seeds of fear, these terrorists hope to throw sand in the gears of the global economy – making it slower and costlier to do business worldwide. As William Safire so astutely pointed out last week: "Freedom of world trade, so devoutly to be wished, cannot blossom without freedom from fear."

Our challenge now, with the economy in a recession and the nation under attack, is to do what we can to maintain investors' systemic confidence in the capital markets as well as confidence in the economy. In doing so, we must resist the rush into easy solutions or action just for action's sake. We must act, but in a rational, thoughtful way.

In my 40 years around the markets and as a head of a major investment firm and stock exchange, I have seen my share of rough patches. Each are unique in their origin and scope, but those who have prospered through them all have done so by following this simple strategy: wait and get things right.

Recall that the month after President Kennedy's assassination, the market faced significant uncertainty, but a year later, it was up by more than 20 percent. Panicked pessimism is just as unwise now as irrational exuberance was a few short years ago.

We saw the importance of measured restraint in the days immediately after the attack in the decision to keep the markets closed until flawless operation was certain. Some have questioned this closure, yet it was clearly the right move. Turbulence in the government bond markets led to concerns about the integrity of clearing. That along with the stresses of trying to trade equities would have caused systemic failure, dealing a bigger blow to confidence in the markets and the economy than any delay in opening could have.

Indeed, the smooth running of our capital markets reassured investors that this fundamental part of our economy was sound. We cannot forget that the markets both reflect and contribute to our economic health. If people lose faith in the efficiency of our capital markets, not only will the market indices drop, but so will consumer confidence, provoking a vicious cycle in which stock market declines feed economic slowdowns and vice versa.

But to maintain this systemic confidence in the wake of the events of September 11, we need to take proactive steps to ensure the strength and security of the markets.

First, the markets need to examine their own security, especially the availability of back-up or alternative trading sites.

One of the most amazing reactions to the attack was to see how swiftly many firms were able to open for business. These companies – from law firms to investment banks – were able to pick themselves up out of the rubble because they were prepared for the worst. And like these firms, the markets too need to prepare themselves for a quick and nimble response to any act of aggression or disaster.

Already, as New York Stock Exchange Chairman Richard Grasso indicated, 92 percent of Big Board orders are done on an e-commerce platform that in a disaster would allow the exchange to -- at least -- perform these types of trades. In addition, the Exchange is exploring the opening of one or two back-up sites in addition to the three it already has.

With only one of the current sites outside Lower Manhattan, this would be a very wise move – one that the American Stock Exchange should emulate. Moving into the New York Stock Exchange's offices, as it did after the recent attack, is not a sufficient safeguard against wider devastation.

Second, I believe that we must not falter in our efforts to make our markets as transparent and open as possible. That means ensuring full and fair disclosure in all parts of the securities industry.

Selective disclosure is as salient as any issue implicating systemic confidence. Companies, analysts, and far too many investors have developed a hypersensitivity to meeting Wall Street quarterly expectations – pushing businesses to practice aggressive accounting, to depend heavily on the blessing of analysts and for analysts in turn to depend heavily on company guidance.

As a result, important information was being used as a commodity, and the currency was access -- access that the investing public was being denied. This selective disclosure undercut confidence in the markets – and it had to be addressed.

The bottom line is this: analysts should compete on the quality of their research not on their access to company information. No one should be immune from healthy and fair competition. Today, individual investors make up a large part of the audience of analysts. So, it's especially important that what purports to be independent fact-finding or research, actually be independent. And It's especially important to not relent in our efforts to implement full disclosure. Investors need more, not less information. They need to be confident that the markets are as open to them as to the established analyst on Wall Street.

Which takes me to my third point: we need to continue to take other steps to engender the individual investor's trust in the markets, specifically, in the people and mechanisms that are his or her main conduit to the system.

When I started as a junior partner in the brokerage firm of Carter, Berlind, and Weill in 1963, the whispered joke on Wall Street was: "If they have it, sell it. If they don't, buy it." Brokers are paid to buy and sell, not to look out for investors' best interests. Warren Buffett likes to make the point this way: any broker who recommended buying and holding Berkshire Hathaway stock from 1965 to now would have made his clients fabulously wealthy. But any broker who did so would have starved to death.

The industry is a lot cleaner and more sophisticated now than it was back in the 1960's and 70's – and brokers now have even more awesome responsibilities. One in three households look to the stock market to help cover the cost of their kids' college education or to fund their retirement. The stampede into the stock market only heightens brokers' obligations.

Sadly, the basic flaw remains as entrenched today as it ever was. That's not to say that all brokers are commission-hungry wolves on the prowl for naive investors. Most are honest professionals who provide a vital service. They are good people stuck in a bad system.

The problems are fourfold. First, the system in which brokers operate is skewed toward volume selling, not giving objective advice. Second, brokerage firms use the lure of higher commissions as sales incentives in ways that investors never know about, unless their broker tells them. But brokers are loath to disclose to their clients how they are paid, or how their bonus is structured, even though such disclosures would go a long way to resolving the conflict-of-interest problem. Third, branch-office managers and other supervisors often are paid commissions just like their brokers, giving them an incentive to push brokers to sell more, and turn a blind eye to questionable practices. And fourth, some brokers are not trained well enough for the enormous tasks they are expected to carry out.

During my tenure at the SEC, I tried to take steps to clean up the brokerage system, and I have long been an advocate of fee-based compensation structures. Some investors, of course, are taking matters into their own hands – turning to on-line trading and to investment advisors. Whatever the system, there will be problems, and diligence will be required on the part of the investor. But to maintain a high level of investor confidence in the markets, individuals must believe that their short- and long-term interests are not being sacrificed by those who advise them. And a fee-based structure would go a long way to this goal.

The bottom line is that an advisor has a responsibility to his clients. An advisor should be expected to hold that interest above all others -- above his own, above his firms, and above the industry's—and most advisors do so. That's the definition of professionalism.

Keeping the markets transparent and secure, ensuring a basic of level of trust between professionals and investors – these are critical in maintaining the integrity of the markets – a goal more important now than ever before. For today, our markets play an unprecedented role in the overall performance of our economy – primarily, through the so-called "wealth effect."

When the market declines, households see their wealth drop, so they pinch their wallets and restrain their spending. The reduction in spending accordingly causes the economy to slow. With a record number of Americans in the stock market, some fear that the wealth effect will be particularly severe in a market downturn.

Recent studies by the Federal Reserve estimate that every one-dollar decline in the stock market reduces household spending by roughly five cents. Given the rise in markets during the 1990s and the fact that the aggregate valuation of the stock market is a greater share of our economy now than at any time in our history, the cumulative effect from our recent market downturn could dampen economic growth.

But there are reasons to remain hopeful. First, equity ownership still remains quite concentrated. For most households, changes in stock prices have only modest wealth effects, since they own relatively little corporate equity. And second, the primary investment vehicle for many Americans is retirement accounts. Current spending may not respond much to changes in such long-term investments.

Where the Dow or S&P 500 closes on any given day is important, but that still does not mean that driving market indices upwards should not be the end all and be all of macro-economic policy. Instead of obsessing over short-term indicators and hastily reacting to them, policymakers in Washington need to focus on the fundamentals of the economy -- specifically, constructing an effective short-term stimulus without sacrificing fiscal discipline and America's long-term economic health.

We must not oversell our economy's perceived weakness. In the short term, interest rates are so low that in inflation-adjusted terms, short-term interest rates are now negative. Energy prices have come down, and a smart stimulus will spur demand as the economy slows.

In the long term, the foundation of our economy is strong. Many analysts believe that the current slowdown – which set in well before September 11th – is part of a normal retrenchment that tends to follow periods of dramatic innovation and growth, and is temporary. Most forecast higher productivity growth over the next decade.

Yet at this very moment, lobbyists for both low- and high-tech industries are flooding Capitol Hill looking for a piece of what will probably be a $75 billion pie. The incentives to spend are almost addictively attractive to politicians at every level. But the unseemly rush of business leaders to use this tragedy to justify appeals for subsidy and regulatory relief must be resisted. I know that many corporate and financial leaders whom I respect favor a capital gains tax cut as a cornerstone of economic recovery. Until September 11th, I considered this an attractive possibility. Today, I do not.

In our present environment, such a step would not stimulate investment, and might well imperil future growth by putting upward pressure on long-term interest rates. The challenge is to devise a package that boosts economic activity, rather than brokering deals that accept all-season favorites of one party or another. I am hopeful that policymakers will devise a one-time bonus for both low- and high-tech investment, giving companies a break on everything from routing systems to office furniture, and giving our economy a needed, affordable jolt to the system.

Of course, there is no guarantee that another shock to confidence will not undermine any effect a stimulus may have. But of one thing I am certain: quick bailouts and mindless special-interest tax cuts may only serve to deepen our economic problem. We have not been hasty in our military response to this tragedy, and we should not be in our economic response either.

We are now in a prolonged battle with terrorism. As President Bush told the nation, we should not expect quick victory as in Desert Storm. We have to be prepared for a long struggle.

Offensively, we need to use the tools of military and police power, diplomacy and international cooperation, intelligence, and development assistance to destroy terrorist networks and dry up their pool of foot soldiers. Defensively, we need to assess the vulnerability of the systems that underpin our personal and economic well-being at home: energy, water, food, health, transportation, commerce, and electronic networks.

In addition, we need to keep our markets – a key part of our economic strength – open and secure. Continue with policies that maintain a high level of systemic confidence. And nurture the fundamentals that power our economy with sound, reasoned policy decisions.

This will take sustained vigilance and hard work. We need to remember that: "those who expect to reap the blessings of freedom, must, like men, undergo the fatigues of supporting it." Those words were written on September 11th – September 11, 1777 -- by

Thomas Paine at the height of our War for Independence. Reading the countless stories of stranger helping stranger and communities coming together, I have no doubt that this generation of Americans is ready – each in our own way – to undertake the responsibility of supporting and defending freedom.

And our charge is clear.

For the sake of our nation, we've got to keep moving forward -- the stakes are too high. For the sake of the men and women working hard at their jobs, struggling to save, reaching for a better life for themselves and their families, we must safeguard our economy for generations to come. And for the sake of our children and our children's children – we must triumph over these dark forces of terror and reinforce the principles and values that will sustain our culture and the nobility of democracy the world over.

This has been what Americans have done in the past. This is the responsibility we are asked to undertake today. And this will be our enduring heritage.

Thank you.