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A LOOK AHEAD

An Address By

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I am very glad to be with you tonight. There are times -- more than I care to admit -- when I speak these words to satisfy a guest's duty of politeness, and if I were Pinocchio, my nose would have grown an inch longer, and if I had to say this in a filed statement with the Commission, Stanley would be suing me. But one does not have to search his conscience for sincerity when he says that he is glad to be in this wonderful room, on this lovely island by the bay, surrounded by such pleasant company.

It does seem a pity, though, after listening to all those speeches for the last several mornings, and playing all afternoon, and now here all full of good spirits and good food, with the gals all gussied up and looking so pretty and so ready for better things, that you have to endure one more speech. You are very nice to put up with it.

I didn't get to Mexico City, but Virginia and I got to Newport Beach the year before, and Scott Hodes and the others who plan these affairs had a better idea for this festive occasion. Instead of pompous rhetoric, we had a dancing contest.

It was no contest as far as I was concerned -- or as far as anyone else was concerned, except Tom Hawekotte, who won. Now Tom is an impressive dancer of a certain sort, as most of you surely know, but the fix was in on that contest. Tom won with the assistance of a transparent fraud, a barely-concealed impostor. Still, it was a happier idea than post-prandial elocution.

However, since by force of circumstances we are involved with each other for these few moments, with mine the task of advancing our thought without impeding our digestion, I do have a few things to say of a rather general nature. I would like to talk about the present state of our securities markets and what attitudes we should have to their future. Contrasted with the more technical problems discussed with such competence and/or authority by other speakers at this conference, my subject seems a bit superficial, but quite suitable for a Chairman. When I was a division director, I much preferred that Chairmen limit their public utterances to great thoughts of the broad and hazy variety and not go fumbling around in my territory -- unless, at least, they spoke only from a text carefully prepared by me.

Allen Mostoff may be disconcerted that I am not using much of the text so carefully prepared by him and his staff at my request. But rather than assure him at the outset that I will keep my unauthorized remarks broad and hazy, I prefer to let him listen and worry.

It is no secret that there is much debilitating doubt and fear abroad in most segments of the securities markets, obviously not excluding mutual funds and their principal underwriters and investment advisers. The general state of morale in the industry is low, to risk an understatement. I know that morale is low, not just from the press but from what industry people tell me, from the way that they tell it, and, often, from the looks on their faces as they come into my office.

I don't mean to sound callous and lacking in sympathetic understanding when I say that some days I feel as though I am conducting a counselling, or perhaps a consoling, service. Sometimes when patience runs a bit thin toward the close of the day, I am inclined to remind a visitor that I have troubles of my own and things are tough all over.

On such occasions, in respect of some visitors, I am tempted to hand out TS slips. I wonder how many of you older fellows remember that friendly advice so common in the Army of World War II when a soldier was having a hard time -- or at least telling everyone within range what a hard time he thought he was having and how unjust it all was. If you wanted to be really helpful to such a gallant warrior, you would advise him to go see the chaplain and get a TS slip. Even in these bawdy times I feel constrained to translate the initials as standing for "tough stuff."

But frail as human nature often is, including mine, I do not mean in any sense to make light of the concerns of industry members who take the trouble to communicate their views and fears to the Commission, and all of us at this end are of like mind. Of course, we would prefer to have the communication in friendly and properly deferential terms.

Last fall I received a short but incisive commentary on our work. A gentleman from Mississippi wrote to tell me of the outrageous practice, which he believed to be prevalent, of companies leaking out material inside information to selected analysts for managers of large institutional investors. My correspondent called my attention to a recent magazine article making the same point and then observed --

> It's too bad you biased, yellow-livered sons-of-a-bitch haven't got the guts to do something about it. If you don't get the message of this commentary you are beyond redemption.

This is the kind of hang-in-there-baby cheering that really gives you a lift. Incidentally, in addition to impugning our ancestry in that familiar phrase, his curious use of the plural suggests a degree of consanquinity among the Commissioners which is not only not the case but unique in my experience with mass pejoration.

Well, it's a citizen's undoubted right to tell off those idiots in Washington, and it is important for us to know the effects of our actions and inactions. Just as the physician wants to know where it hurts, and the chef at least ought to want to know how it tastes, we want to know the effects of our behavior on persons whom we regulate. It is more helpful, if less fun, when the expressions of dissatisfaction are more constructive than my friend from Mississippi, but we pay some attention to them all.

Most members of the industry who tell me directly of their distress at present conditions and their fear of the future are polite and considerate of my feelings as I am of theirs, but the accusatory flavor is often there. They are too nice to say unkind words to my face, but there is a discernable feeling of resignation and hopelessness -- not with the more intelligent and reasonable segment of mankind but with the Commission, which is obviously beyond the reach of sound reason and, presumably, redemption.

It is not pleasant to have someone quietly and politely telling you that you have ruined his business, knowing that if he would speak more bluntly, he would say you have ruined me because you are so goddamned stupid or because you are so anxious to be popular with the media and in other quarters that you don't care what you do to me. It is easier, in a way, to receive a letter from Mississippi, or, at a much more serious and competent level, a public Philippic such as David Silver unburdened himself of a year ago. Better for Dave and better for us for these feelings to be vented clearly and publicly.

I don't mean to demean Dave, or others who have spoken out frankly and critically, by suggesting that the value of such utterances is merely that of a cathartic. Catharsis does, indeed, play a role in government. While a little bit of sugar helps the medicine go down -- at least in the nursery -- a little bit of spit-in-the-eye may help more among men of spirit. But it is also important to be confident that the medicine is good. We have not forgotten Dave's indictment, and it has caused reflection about where we are headed and what we are trying to do, which still continues.

While these are not happy days to be in the securities or the investment business, I can assure you that these are likewise not very happy days to be a government official responsible for financial regulation. It's not that our salaries are in jeopardy -- little danger that they will go down -- little danger that they will go up very much, either, but that's another matter. Even in a superficial way, it is much more fun to regulate mutual funds, broker-dealers and investment advisers when they are all doing well and acting fat and sassy. That produces the sort of tension between government and private industry with which we all feel comfortable. We fall naturally into the role of restraining hand, the government that says don't be so eager to get even more rich that you neglect the interests of customers' clients and shareholders.

It is quite different to regulate industries that are not doing so well. One comes to wish that he had far more power than he does, and of a different kind, of a kind no regulatory agency can ever have. One wishes he had the power to order the mutual fund industry and the securities industry at large to get well. I want to say, "Be prosperous! Our laws are intended to cause you to be fair and honest and to be true to your obligations to the ordinary investor, but not to be poor, unprofitable and unsuccessful." There are good reasons, some of which may occur to you, why I personally, and the Commission generally, should not be permitted such God-like power, even for a little while, but the desire is there. Not just to be nice, you understand, but also because of the creeping effect on our society of too much despondency from too many quarters.

To return to my theme, why is morale so low? That isn't a very searching question if all it seeks is a reminder that five years ago everything was wine and roses but for several years now it has only been flat beer and skunkweed. There is some danger, of course, that dissatisfaction with present conditions may be exacerbated by comparison with an unreasonable base. Anyone in the securities business who is still grieving because things aren't like they were in 1968 I believe is foolish. If he entered the business in those days, he probably has a lifelong problem. His business life may never top the opener. That's one advantage we depression babies have. Life, economic life at least, has generally been uphill ever since, even now.

I don't know how we could ultimately reconcile a severe curtailment in economic growth with human nature, at least as we have known it and it has come to be in our society. We don't know what to think or how to behave when volume of economic activity and market values are not growing -- still less when we are told, as some are saying, that they are not supposed to grow any more, that we are cluttering up our space craft with a lot of junk, and we must cut back. One can imagine this zero growth state of mind for an individual. Many of our children seem to have achieved it quite successfully, some on a shamelessly subsidized basis, but some quite genuinely.

I think I might have some success at achieving this, for myself, now that our children are up and out and my wife is gainfully employed. I like to work, but I can frequently be talked out of it. The problem, as I see it, is not with any specific individual but with our society as a whole and our roles as managers and advisers to managers. There are millions of our people who do not want the game called just when they are on the threshold of getting theirs. There are millions of people close enough to the subsistence level with heavy personal responsibilities who are terrified and infuriated with the thought that economic growth is bad. Some people may rejoice at the reduction in large car production, for instance, but not the tens of thousands who have been laid off in mid-winter.

What does this have to do with our securities markets? The stock markets in particular are a reflection not just of the present and the immediate past but also of our collective estimates of the future. What are the markets telling us? As an SEC Commissioner, Congress carefully refrained from legislating me any expertise on the subject of market prices, and as a private individual I have never pretended to any. But I am aware of the fact that the longer the markets remain depressed, the more people wonder whether we are experiencing a major change in long range investor attitude born of inner feelings or fears that things are never going to be like they used to be. And if this is true, people are asking, what is going to happen to me? And if we are crossing a major watershed, can we adjust our industry and society and ourselves to accommodate the new environment?

There are, of course, other things in our present society than stock market behavior that can lead to millenarian gloom if one wishes to read the signs that way. One with a Toynbeean view of history can look to changes in morals, arts, public taste and manners, political travails, gratuitous violence and cruelty, decline in military fervor, and the resurgence in Satanism as portents of our impending collapse as a civilization. People of my age and older may mutter privately that what we need is another war, but everyone really knows that that is no longer a workable solution, if it ever was.

On the other hand, what reason is there to read all the signs the other way? What reason is there to believe that our society and economy are still in sound condition and that, thinking of our own occupations, economic growth will continue and securities markets survive? Economically, I think the main reason to expect continued growth is because there is so much to be done. There is enormous economic demand. We are a long way from providing adequate physical, economic well-being for all of our people. Energy alone, while appearing as a short-run calamity, is a long-run opportunity. If we can solve the attendant social problems, there is no question that we can solve the technological problems. The same is true of food, housing, clothing and transportation. There are huge sums of capital required for the next decade, and much work to be done. And I believe that in the stumbling and uncertain way in which a free society and a free economy manages to move ahead, we are going to get that work done. I believe we are going to figure out how to work out our new conditions and move on toward a better and happier condition for all of our people.

To say that this will present enormous capital demands in the next ten years, however, is not to say how the demands will be met. There are alternatives, all but one of which involve fundamental changes in our capital markets and probably in our society. If we are to meet these demands and preserve our free capital markets, composed of a multiplicity of sources of capital, individual and institutional, our securities industry must be maintained in all of its aspects with sufficient resources and profitability to remain competitive and do the job. Since adequate free markets for the raising of new equity capital depend heavily on adequate markets for secondary trading, it seems to me largely all of a piece.

It is therefore incumbent on all branches of government and industry to take measures that will contribute to this end. We need the investment banking capital and distribution facilities to market large issues on reasonable terms with adequate competition to provide issuers with fair choices. We need both a modernized central market system with adequate capital to provide liquidity for institutional stocks.

We need to persuade the individual if he prefers direct investment in equities that the market is fair and efficient with respect to him, and if he prefers indirect investment through an institutional medium then he has a variety of choices, all of which will treat him fairly at reasonable cost. And, of course, we need more.

To the extent of its direct authority and its opportunities for presenting its views effectively to other branches and agencies of the government and to industry, the SEC intends to work toward this goal.

My own view, accordingly, is optimistic. I am confident that on the whole our management of business and of government are in good hands and that we will do a good job in the years immediately ahead. As far as markets are concerned, I naturally do not know when they will come back to life. I only join you in hoping that it is soon. Meanwhile, I urge you all to keep confidence in our great country and our people to work together to solve our present problems as we have so often in the past.