

# NEWS

## SECURITIES AND EXCHANGE COMMISSION

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### WHERE ARE WE GOING?

An Address By

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Securities and Exchange Commission

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Some weeks ago, when the secretary of your club called and asked me to put a title on the talk I was to make to this distinguished forum, having nothing in mind and knowing that the title would not unduly encumber me in dealing with whatever matters seemed most vital at the time, I said "How about 'Where Are We Going?'" As I stand before you today I like that subject at a time when our people are preparing to express their quadrennial choice in national leadership and their direction on our course as a nation.

I think it is not too much to say that we are at a crossroads in our posture in the world, in the structure of our society and our economy at home, and in my own special area of concern, the structure of our securities markets.

These three crossroads are intermeshed and we must make the right choice at each of them.

In the world, our country is no longer dominant, economically or militarily or politically, in the same way it was 10 years ago. We have moved to adapt to that new fact of life by establishing new economic and political relationships. This is essential to a stable and peaceful world and will be possible and fruitful only as long as we deal from a position of strength and confidence in ourselves.

Indeed, this broadening of our economic and political relationships with the nations which now share world power with us may well have become possible only because of what may be the two most crucial facts in our world--the million or so Russian troops who have been moved over thousands of miles to the Chinese border and the nuclear missiles which are now being developed and built in China. A time which may represent a unique opportunity to substitute economic and political dealings for military competition and confrontation is no time to dismantle our military strength. A time when American influence may be the only instrument capable of keeping the peace is no time to abandon the American role of political leadership in the world which has contributed so much to avoiding direct hostilities between major powers for over a quarter of a century.

The economic shape of the world is changing. Both Japan and the European common market rival us in economic strength and competitive ability. Two huge new underdeveloped markets--the Soviet Union and China--seem to be opening up. This is no time for economic experimentation which can undermine our ability to compete in world markets. Rather, it's a time to face hard facts--that our share of world trade has shrunk from 50 percent to 30 percent over a period of

20 years--that over the last 10 years Japan's exports have grown 10 times as much as ours and Germany's three times as much -- that an hour of work in the United States costs almost four times as much as it does in Japan and close to three times what it does in Western Europe. This is a time when to inflate those costs further by reckless spending and taxing could seriously and perhaps permanently undermine the living standards of all Americans.

Indeed, the task immediately ahead of us as a nation is to revive and strengthen the economic disciplines which have produced the highest living standards the world has ever known. I'm talking about the relationship between work and income--the relationship between responsibility and reward--the relationship between satisfaction and payment--the relationship between supply and demand and price. We have seriously diluted the economic disciplines and perhaps the most crucial choice before us is whether we continue to dilute them or begin to revive them. The dilution road inevitably leads to more inflation, higher taxes, and lower productivity. The turn of exchange rates against the dollar in world currency markets and our trade and budget deficits tell us with overpowering force that we've lost our cushion.

The economic rise of Japan and Western Europe and the experience of Great Britain, which 20 years ago had the highest living standards in Europe and now has one of the lowest, promises that the impact on the living standards of all Americans will come sharply and quickly. We tend to be abstract and ethereal in our discussion of causes and consequences in economic matters. Let me try to be a little more concrete. I don't have to explain to this audience how government spending generates either taxes or inflation-- how both taxes and inflation increase costs and prices-- how higher costs and prices restrict markets for our products and reduce the jobs and the pay available to our people. The key to our living standards and our standing in world economic competition is to be found in our productivity. There are many factors which contribute to productivity--the use of capital, technology, efficiency of method and organization, sheer effort and working discipline.

Let me focus on how the politicians temptation to offer something for nothing, to use your money to buy votes--shall we say at \$1,000 a vote--tends to undermine working discipline and organizational efficiency.

Both the will to work and to assume responsibility is certainly impaired whenever we give something for nothing and whenever we cut into the reward for work and responsibility. That's what we do with give-away schemes and tax increases to pay for them. That is not responsible public policy at this point in American economic history.

It is not easy for an ambitious politician to accept as one of the facts of life that if you produce, it can be consumed but that you can't consume what isn't produced. That hard fact makes it tough to promise something for nothing. In the great national policy decision we are about to make, the decision will be whether savings are to be taxed or invested; whether decision or responsibility is to be concentrated in a huge central machine or decentralized to people and the local institutions they create; whether income is to be related to work, except for those unable to work; whether demands on our productive power are to be limited by factors of price and cost; whether our economic life is to be controlled by one vote every four years in the ballot box or by the votes cast every day in the marketplace.

In the securities markets we are also at a crossroads. We can go the European way of concentrating savings and

economic decisions in a relatively few institutions or continue on our own way to a broader and deeper people's capitalism with economic values determined and decisions made by a more informed and more sophisticated investing public guided by professionals.

The choice we make here is also crucial. As other countries continue to produce more for less, with greater productivity and lower wage rates, as they rapidly improve their own technology while they license ours, as they come to control more accessible and cheaper raw materials, as they gain an advantage the United States has enjoyed for so long -- access to a huge continental market -- our ability to mobilize capital to rapidly apply new technology may become our last great asset in world economic competition. And as the second best and most sophisticated market in the world, that in London, moves into continental economy in the Common Market, we are going to face stiff competition in world capital markets and in securities markets which will become increasingly international.

Keeping this advantage will depend upon public confidence in our securities markets and that requires continued forward movement in keeping investors in the American securities markets the best informed and the best served in the world and in keeping the American securities markets the most sensitive, most stable, and most liquid securities market in the world. That's what makes it possible for our corporations to command more capital for a dollar of earnings than their competitors abroad, to plow back earnings which their competitors abroad have to distribute in order to maintain their capital values and to raise larger amounts of capital more quickly in order to apply more rapidly and on a larger scale the technology we have shared and the markets we have opened to the world.

To maintain this priceless asset of the world's best capital market, we must maintain the trust and confidence of the 30 million individuals who now own a share of American industry and of other millions who do not now own stock. That is why we are doing everything possible to accelerate the creation of a central market system, national in scope. That is why this market system must protect public customers, assure fairness between small investors and large investors,



and give all qualified brokers both the same opportunity to get the benefits of the marketplace and the same obligation to contribute to the purpose of the marketplace by providing brokerage services for public customers.

We are working to create true competition in pricing and market-making within a nationwide market system in which the regionals will be market-making centers and have a shot at all the trading interest no matter where it originates. For over 30 years, members of regional exchanges have been forced to provide execution at least as good as the prices existing in the primary market or risk losing the order altogether. During this 30 year period, regional members have had little or no opportunity to take business away from the primary exchanges by bettering in price and volume the orders available there. A truly national market will mean greater opportunity for local financial institutions and the benefit of competition in price and liquidity for investors throughout the land.

It is urgent to move with dispatch to resolve uncertainties and create a sense of direction and movement in improving the structure and efficiency and the performance of our capital markets.

The small investor must have the continuing assurance that he is getting the same quality of information about the progress and performance of public companies at the same time as the company insider and the large investor. Our markets must be structured to give all investors access to the same disclosure of prices, volumes and quotes and to the best available buying and selling opportunities.

Individuals must have the assurance that institutions do not have an inside track in the markets and in the information and guidance available to them.

To be useful, information has to be evaluated and analyzed and then judgment has to be applied to arrive at investment decision. This function is performed by a corps of some 15,000 securities analysts, unique in the world, and by investment advisers and managers, within and without this corps of securities analysts. Some investors do it for themselves, others use advisors, others rely on brokers, still others pool their savings to get professional money management through institutions. Whoever does it, this is the critical function for investors, for companies in need of public money and for the nation in the allocation of its resources of capital and talent.

In a pluralistic and diversified society like ours, all routes should be kept open. Indeed, if we are to preserve the vitality of our markets and avoid a centralization of economic decision and control in a relatively few institutions, all routes must remain open.

Right now we are giving high priority to determining what can be done to assure that those members of the investing public who prefer to invest directly rather than through investment companies get the benefit of research and professional judgment. In a recent reorganization of the Commission a specialized division--the Division of Investment Company Regulation--was created to deal with all forms of investment management.

With the present capabilities of the computer, there should be no reason why individualized advisory services can't be developed for people with relatively small amounts to invest. These services could provide continuous account supervision and follow-up for significant numbers of direct investors and establish important new trends for the securities industry. Our present view is that these services could dramatically reduce the disparity between research information

and investment management available to institutions and that available to individuals--and, to the extent these services close this gap--they should be encouraged.

There are, of course, many problems of regulation in this area. There is confusion, for example, about the applicability of the Investment Company Act and the Securities Act to a situation involving large-scale solicitation of small accounts and where it appears likely that the arrangements involve pooling of investors' funds. In addition, some representations as to "individualized" treatment of clients raise questions under the anti-fraud provisions of the Investment Advisers Act.

It is clear that in some cases, through public solicitation and the providing of very similar investment advice, advisory services can become functionally and substantially indistinguishable from a mutual fund. In other cases, notwithstanding some overlapping service, individualized investment advice seems to be given. Thus, it does appear possible to set up a managed non-pooled account arrangement so as to provide the type of individualized service some investors might prefer instead of investing in a mutual fund. But we have heard that uncertainty as to the law in this area has inhibited the organization and growth of investment services for individual investors.

The current situation should be clarified. I have directed the new Division concerned with investment management to work to develop a clear policy and guidelines on methods of providing investment management services for individual investors which will assure necessary investor protections while also, to the extent possible, encouraging the development of innovative money management services for individual investors.

In the three critical areas I have discussed -- the world, our national economy and our equity markets which are so critical to our economic progress at home and abroad -- I am an optimist. I believe we are on the right course and that we will stay on the right course. To move as rapidly and effectively on this course as the world needs and as our people deserve, confidence is the essential ingredient -- confidence that we have strong and experienced leadership, confidence among the people and the leaders of the world that we have command over our affairs at all levels. I believe we command this confidence today. Let's keep it.