Address of

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at the

JOINT SECURITIES INDUSTRY DINNER

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When Ad Arthurs called me ten days ago to confirm the fact that we would be together tonight, he warned me on behalf of all of you not to make a technical speech. Since you're the host and I the guest, I will obey instructions.

However, I would like to talk shop in the sense of doing a little philosophizing on a few phases of the relation to today's economy of the capital markets as presently regulated and on your relationship to those capital markets.

Too many of us think of the Federal securities laws in terms of the conditions existing at the time they were enacted in the 30's. They were passed when the economy was moribund. They were directed against abuses which had developed during a period of excessive popular speculation.

Today we are administering those same laws in a different kind of economy. In 1934 offerings, public and private, of corporate securities came to some 400 million dollars. In 1953 the corresponding figure was about 9 billion dollars. In 1939 it was about 2 billion 200 million dollars. For the first time in about 25 years, there is prosperity and no shooting war. That prosperity can be sustained only if there is a flow of investment capital into our economy. The characteristics of the American economy which have produced the standard of living which our people enjoy are -- and I apologize for over-simplifying:

1. Constantly improving methods of production based on research and on replacement of obsolescent equipment;

2. Mass production for a mass market so that the luxuries of one generation become the necessities for the next;

3. A wage scale gradually rising both in dollars and in actual purchasing power;

4. Free competition;

To keep that kind of economy healthy is, of course, the aim of all of us except a few extremists. There are differences of opinion as to legal and philosophical approaches, and we have learned a lot as time went on.

I am not going to talk either technically or philosophically about the anti-trust laws which are designed to curtail combinations and preserve competition, nor about the labor laws which are designed to assure the wage earner of his proper share of the economic pie. My observations will be limited to a few remarks about the capital markets which help supply the funds for improving productive facilities.

Almost 70 years ago, when accumulation of great fortunes and of great industrial and financial power by a comparatively few, stimulated controversy and demand for more Federal control, there were serious discussions of Federal incorporation of companies in interstate commerce and of Federal licensing. In the early part of the century an Industrial Commission created by the Congress recommended Federal incorporation and suggested that corporations should be required to publish information about themselves and their promoters in the raising of capital and to furnish financial reports to their stockholders.

I mention those facts to indicate first that the type of Federal regulation which we now have is not the exclusive intellectual property of the early New Deal and to make the point that the same kind of medicine which was suggested to cure the growing pains of a cantankerous economy near the turn of the century was in fact prescribed to cure the moribund economy of the 1930's.

The moral is not hard to find. There must be laws designed to keep our capital markets clean so that people will trust the processes of capital formation. From a long-range point of view, only when the investor has confidence in the system will he continue to invest. That means that the investor should know what he is getting into when he buys securities, and he should have a remedy for fraud practiced on him in the purchase or sale of securities. Markets for securities should be free of manipulation. Management should give account of its stewardship.

The Federal securities laws and the state corporation laws and state securities laws, in combination, are designed to accomplish those ends. Unfortunately, there is too much variation among state laws, but it is a hopeful sign that the competition which once prevailed among the states for looseness in corporation laws has ended and that there has developed an evolutionary trend toward uniform and sound state corporation laws. The Federal securities laws present a pattern which I think is here to stay.

Now let me try to bring this to some kind of conclusion applicable to Pittsburgh and applicable to you. Pittsburgh is a vital industrial center and a significant financial center. It has big business and small business. It has financial "know-how", production "know-how", marketing "know-how", and legal and accounting "know-how". In other words, it has the whole range of talents that are required for the operation of a healthy American economy. To the extent that these talents are buried and not used, your individual lives are less significant, Pittsburgh suffers, and so does the American economy.

The expansion in the American economy -- more production, replacement of equipment, a great mass market, a higher standard of living -- requires constant infusion of new capital. This capital must flow not only into big business but into smaller business. If the various elements of the economy grow too unevenly, we get into the numerous problems and controversies created by concentration of economic power.

Big business knows its way to the capital markets. Smaller business (I am speaking relatively; I don't know where to draw the line between "big" and "small") is not quite so sophisticated on the subject. For example, the Federal Small Business Administration gets many applications for loans from businesses which should be seeking equity capital from public investors. But people are worried about losing control. Too few entrepreneurs understand that stock ownership considerably less than 51% permits effective working control so long as the business is run capably and conscientiously. Too few understand that balancing the disadvantage of dilution of the power of control is the advantage of an established public market for the securities of a business. That helps solve many estate tax problems and sometimes means the difference between a fair price and a sacrifice when shares of a small business must be sold on the owner's death. Too many think of compliance with the securities laws as an impossible hurdle. Too many lack competent advice on the subject.

Speaking frankly -- and I hope I can do that in my own home town -- there is both an obligation and an opportunity for securities dealers, for accountants, for lawyers, to acquire more "know-how" in the field of capital formation so that they can better perform their duty to those they serve.

Businesses seeking capital need advice on choosing alternatives. Since one of those alternatives is the public market, they need advice on the financial problems, the selling problems, the legal problems and the accounting problems involved in a public offering registered or exempt under Federal securities laws. Too many people seem to feel that it is necessary to go to one of the very largest financial centers for that kind of help. To the extent that such a feeling exists, it's a shame. Pittsburgh fortunately has an alert financial fraternity as well as alert legal and accounting professions. May it ever be so.

Our Commission is trying to achieve greater public knowledge of its requirements. We are getting into the hands of all offices of the Small Business Administration around the country copies of our releases and forms relating to the more usual financing. We are providing Small Business Administration personnel with memoranda on equity financing under the Federal securities laws. Copies of the SEC releases on private offerings and the intra-state exemption are being made available. It is contemplated that the Small Business Administration will include a publication on the work of the SEC in its Management Aid Series. Furthermore, our staff will be available to participate in Small Business Administration's business clinics.

We are trying at the Commission to eliminate useless red tape, but complexity cannot be eliminated from something that is complex by nature.

You may think that more widely disseminated "know-how" about compliance with securities laws is a microscopic stimulant to the economy. If that is what you do think, I respectfully disagree. The securities laws are here to stay. They have improved the morality of our processes of raising capital and they increase public confidence in our capital markets. As knowledge of the requirements of those laws becomes more widespread; as the techniques of compliance become more generally known, more businesses in need of capital will resort to the public capital markets. The first registration statement is a hard job. The first public disclosure of corporate affairs involves a break in habit patterns, but thousands have survived the experience.

If our major premise is correct -- that the savings of the people reinvested in the economy keep the economy growing and continuously raise the general standard of living -- then it is obvious that we need in all parts of the country people familiar with the processes of capital formation and the laws which regulate those processes. American business and American industry is scattered all over the country. American national wealth is broadly diffused. We need mechanics where the machines are located.

The wide dissemination among literally millions of Americans of skill and knowledge in fields of science and technology doubtlessly account for much of the progress which this nation has made. It is accountable in considerable measure not only for our defensive strength but for the character of our economy and our national standard of living. Our rivals on the other side of the iron curtain and the bamboo curtain are building up great bodies of people trained in engineering and technical skills.

I think, in terms of importance to our economy, there is a fair analogy between technical competence in scientific matters and technical competence in the processes of financing our business enterprises, large and small.

To the extent that real competence in the field of capital formation -- as distinguished from competence in investment analysis or salesmanship -- is confined to too few people, it tends to become a kind of priestcraft or esoteric art. Management today -- and you are advisers of management -- has a duty to keep informed of the growing list of alternative methods to provide capital and the legal problems and requirements which they involve.

Government becomes a supplier of capital to private business to finance great defense programs, or to fill needs which arise when private enterprise fails, either through lack of confidence or inertia. Financing defense production is a case by itself which I shall not discuss. Lack of confidence is a symbol which is beyond the scope of even this rambling discussion, but to the extent that public financing of business is brought about by the inertia of any segment of our private economic organization, private enterprise must assume its share of the blame.

I am not lecturing you. I am seeking, however, to apply a bellows to the fire of your enthusiasm, to use and improve your own individual talents toward the constant strengthening of our great American economy and therefore of America itself. The mobilized talent of all Americans is, up to now, the greatest single human force in the world. But it will be so only so long as we preserve our vision and our vigor.

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