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**GANSON PURCELL**

*Chairman, Securities and Exchange Commission*

before the

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You have called your meeting here tonight -- your annual get-together -- under more trying circumstances than have prevailed in many a previous year. True, during the last ten or twelve years we have all had our troubles but they seem dreadfully inconsequential in the light of present day considerations.

We at the Securities and Exchange Commission have naturally had occasion to come very directly in contact with the problems of these other years as they have faced the participants in the financial world. Various difficulties in the way of overcoming the obstacles to success in this field have been advanced and attempts have been made to isolate the cause of these difficulties. I do not propose to review or to attempt to refute -- if I were so minded -- the difficulties which have been put forward as constituting the basic ills which have beset the financial world, and the investment industry in particular, during this period. To do so would merely involve us in debate and would lead to no constructive analysis or proposal for solution of the problems which now confront the investment industry.

Furthermore, I could hardly state for this group, which fairly represents the investment business of the country's greatest financial center, all of the difficulties, apparent and anticipated, which lie across the path of prosperity during the periods of war and adjustment after war. I have been greatly concerned with the problems of finance during these periods, both those of the investment industry itself and those of the corporate producers of the things by which we live and by which, perforce today, we fight.

As to the conservation of our corporate finances I have had somewhat to say on previous occasions in the past, and I will venture a word or two more tonight. But I have for some time desired to discuss with a group such as this the problems of conserving our investment machinery. For when I say conserve our investment machinery I have reference to what may be a real danger of irreparable damage to that system unless steps are taken to appraise the situation and the outlook, and to devise and employ sound measures designed to strengthen and preserve all that which is

of value which has been built up over the years.

I have mentioned the difficulties which seemed to beset the investment industry during the years just passed - what seemed to those in the business to constitute the obstacles to the attainment of a steady and profitable flow of business. Explanations for these conditions were advanced on every hand, such as securities regulation, tax statutes, labor legislation, utilities regulation and integration, and the like. As I promised, I am not going to argue the soundness of such contentions. Suffice it to say that impressive as these explanations may have seemed at the time they were made, they have lost greatly in significance when viewed in our present surrounding. The times have really served to clarify our thinking.

What impelled me to give especially serious consideration to this problem was an event which occurred not many weeks ago. I had the opportunity to discuss some aspects of the investment business with a man of your own calling, a senior partner in an investment banking firm of substantial standing.

In a very interesting conversation he brought home to me a new realization of what has been happening in investment business circles and what real obstacles are to be overcome in that field from this point forward. This man pointed out that over the past few years while the investment industry has been beset by various worries and difficulties which have defied isolation and definition, those engaged in the business have been able to carry on from month to month for the very reason that these difficulties were not susceptible of accurate description. As he put it, those engaged in the business were unable to see what lay ahead in the future -- whether conditions were going to be bad or whether they were going to be good. Actually, he said, they had varied from month to month sufficiently to yield a living return from the business. But, he said that now the curtain had been lifted and any thinking person could see very clearly ahead, and the picture seemed to him to be one of

inability to operate successfully on the existing scale.

The lesson that I drew from his discourse was that at last here was something very real, very tangible, which called for initiative and determination in its solution. It seemed to me that such a prospect demanded a diligent

search for methods and means of continuing this great institution on some adjusted basis so that it will be kept alive and vigorous against the day when its full capacities will be called upon again.

I regard it as imperative that vital steps should be taken to assure the attainment of this objective. For as this system has rendered great assistance in building our financial economy in the past, so it will be called upon in the future to strengthen and advance it and to reconstruct such part of it as may be lost through the exigencies of war. If the machinery which exists today is permitted, through lack of our foresight, to slip into sickly decline, the men of experience who make up that system -- men like yourselves who are gathered here tonight -- will not be prepared to assume with ability the great task of reconstruction after the war when their services will be most sorely needed. By the same token they will not be in harness during the war period to keep a steady hand on the affairs of corporate finance and to care for the needs and guide the interests of the individual investors who must be the source of capital supply for the reconstruction.

We all know what it means to your business to have a large volume of attractive new issues of securities, increasing corporate profits and dividends, and the accompanying interest in public security trading. Conditions such as those mean substantial profits and the ability to maintain extensive facilities and staff. Conversely, we also know too well the lack of those security issues and the decrease in earnings and ability to pay dividends which result from adverse economic conditions and the pressures of war. The difference between these conditions is the difference, for many in your business, profit and loss. The problem in such times as these is to find means to avert or

offset such a loss. Otherwise there is no motive for continuing in the field, since the incentive for entering upon a financial career is profit. The answer is not easy to discover and when found I doubt that it can be applied by any but the most resolute. There is no panacea that will answer the individual questions of each of you. No simple nostrum, such as a subsidy that will maintain the status quo through periods of adversity, can be seriously suggested by those with a full appreciation of the war requirements of the nation.

I am told that even now you are in a period when your facilities and your personnel are in excess of the needs of finance. The indications are that as the war goes on this situation will become even more acute. For many in the securities business this presents business and personal problems of the first magnitude. It may even indicate to some that they can not continue unless there is a change for the better. It seems to me, however, that the key to maintaining the business lies in the ability to eliminate the unwarranted and unwanted overhead which is today existent in so many instances. I fully appreciate that the problem is being to some extent simplified by the fact that many of your trained personnel are entering the service in our armed forces or finding employment in many other branches of our war effort. For those that remain the task is one to be solved through economy. They must seek simplification of processes and community of operation. Through elimination of traditional but unnecessary appendages, and through the combination of many presently separated functions, the financial world as a whole can find the means to economize and the incentive to progress. Such can be the basic strength of a converted industry that it will make for fundamental soundness, thus giving a proper foundation for the inevitable expansion which must be made in order effectively to recreate our financial system of tomorrow. In that system our problems will not be merely domestic but their scope will be international.

Today the investment business, like many other industries throughout the country, is facing curtailment because the material upon which it relies and must have in order to operate is needed and must be conserved for use in the prosecution of the war. While the public generally must limit itself in the use of commodities such as sugar, radios, automobiles, and other consumer goods, your business must adjust itself to a contraction of the private financing which constitutes its very life blood.

Public, as opposed to private, financing has materially increased largely owing to the nature of the demand for capital for prosecution of the war effort. I do not mean to suggest, however, that expanded activities and operations for war purposes can not be properly financed through the use of existing corporate funds or through ordinary private financing. There undoubtedly are many opportunities where the necessary financing can be handled through the usual channels; and where it can be done, it most certainly should be done. It is your responsibility and that of industry generally to seek these out and exert every effort to arrange for private financing in order that the government's load will be lightened.

It is becoming apparent that industrial producers generally have failed to realize their full responsibility for financing the war. Instances are increasing where they have neglected to use their capital or credit for activities that are absolutely essential. The tendency has been to let the government -- and, indirectly, the public -- assume all of the risk. By the same token these consumers of capital have reduced the demand for the financial services afforded by the investment banking industry.

We recognize that capital is an essential material of war in the same, or perhaps a more basic, sense than the materials which it produces. Its continued use in present or greater amounts, and without regard to the purposes of its employment, will rapidly reduce its availability. Therefore, it is clear that it must be conserved and its flow must be carefully guided

in order to avoid waste or misuse. This was our experience in the last war and it is the present experience of other nations of the world that are at war today.

Let me give a simple example of what I mean when I speak of the proper direction of the use of capital.

Suppose that a manufacturing corporation which is converting its facilities to the production of tanks and guns is in need of additional capital for the purpose, and desires to obtain that capital from the public markets. One would not have a moment's hesitation as to the desirability in the national interest of permitting such funds to be obtained, assuming that the established standards for the protection of the investing public were met.

But, suppose that the sale is being made for the purpose of expanding facilities or of holding or acquiring inventory. Assume further that these facilities and this inventory are not in any sense needed for the war effort and that the corporation seeking the funds has, in fact, ample inventory for its present and prospective needs and that it enjoys a good credit standing with the banks. Should we permit such a corporation at this time to sell notes to the public to increase its inventory accounts? Does not this very procedure smack of hoarding on a large scale?

Suppose again that the nature of the inventory is such as to require a substantial amount of farm labor and farm implements. Should we not ask whether the proposed offering would tend further to divert farm labor from the production of essential food items to perhaps less essential products, and whether equipment would be similarly diverted?

Next let us suppose that this new issue of securities is offered to raise money to pay off existing bank loans, rather than to raise new money for the business. This, while it would not reduce the overall amount of capital in our markets, would shift it from the hands of the general investing public to the banks. The question is immediately raised whether such uses of available capital funds for expanding the operations of companies not

essential to the war effort is consonant with the objectives of the Treasury Department to sell Defense Bonds to individual investors. Certainly the use of capital funds to retire existing bank loans, thus increasing the supply of cash in the banks, is at variance with the effort to curtail, so far as possible, the continuance of the sale of government obligations to banks.

Recent disclosures before Congressional committees have highlighted what we have all noted with increasing concern. During time of war taxes upon excess profits are resorted to as a substantial aid in defraying the cost of war, but I am fearful that the short-sightedness of corporate management or its ingrained desire to reduce tax liability has given rise to many instances of capital waste.

Many of our government contracts are based upon costs. This has always encouraged excessive salaries and bonus arrangements to management, excessive fees to agents, excessive advertising expenses, excessive payments for materials, and in some cases even excessive payments for labor. Some managements have seemed to adopt the attitude that since excess profits in large measure will not inure to the benefit of the owners of the enterprise, they might as well build up costs regardless of the need or justification for these excess costs. Should there not also be some check on such waste incidental to our program to conserve our capital funds?

These are some of the immediate problems, but undoubtedly others of equal challenge will face us in the transition from a war economy back to a peacetime economy. Your obligations as an industry to help us successfully through that critical period will be equally as great as your responsibilities in time of war. Not only will they call for great breadth of vision, but for sober restraint throughout the entire financial industry.

In this connection let me take occasion to commend the splendid accomplishments already achieved by your Association and by the National Association of Securities Dealers. We may not see every problem with precisely



the same perspective, but perhaps that is inherent in the nature of our respective positions. But the constructive work already encompassed within the activities of those organizations augurs well for the further beneficial solution of the problems that lie ahead. It bids fair to be a vital force in the maintenance of a sound financial system.

Recent press reports indicate that progressive heads in other fields are assuming leadership in sound war and post-war planning designed to guarantee the survival of free enterprise and our competitive capitalistic economy. It is indeed gratifying to know that industry itself is taking the initiative along these lines, for the aid of government will be rendered unnecessary to the extent that private enterprise succeeds in understanding and meeting these problems.

These, in brief, are some of the financial sticklers that it is up to us to solve. We in government have our statutory duties and responsibilities. You in private life have a tremendous interest and corresponding responsibility toward their solution. For that reason alone your continued active participation in the economic life of the nation is imperative.