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Address of

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Chairman

Securities and Exchange Commission

at the

"FREEDOM TO INVEST DAY" DINNER

of the

NATIONAL INVEST IN AMERICA COMMITTEE

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The Philadelphia "Invest in America Week" which is a part of a national observance, is directed in great measure to finance as the life blood of American enterprise. When the financial community talks about "investing in America" it is talking largely about investing in securities. However, investment in securities, either directly or indirectly, is only a small part of a much bigger economic process.

When a man establishes his own household and buys furniture; when he buys a car; when he buys a house, when he starts a business of his own; when he buys a life insurance policy; when he votes for a school bond issue, he invests in America. In a philosophic sense, investment is a present commitment of one's wealth, either present or prospective, to some economic use other than immediate consumption.

We should not, in our economic thinking, isolate the idea of investing in the sense of investing in corporate enterprise from the larger idea of investing in the sense of making any long-term financial commitment.

Faith and confidence in our government and in our economic system are prerequisites to the existence of a will to invest. History makes it clear that when confidence in a government or an economic system disappears investment shrivels or capital flees, or spending replaces investment, or wealth becomes static through investment in land or jewelry. People are willing to make commitments of their means to projects for the future only when they have confidence in that future.

A person's willingness to buy life insurance is based on a faith in the insurance company, a faith in the process by which the states control insurance companies, a faith that the dollars represented by the policy will not become worthless. When a man buys a

home and finances it by giving a mortgage, he has some faith in the soundness of the structure itself, he has some faith in the neighborhood, and he has some faith that the economic system in which he finds employment will provide him with funds to discharge the mortgage debt. The institution which takes that same mortgage has faith in pretty much those same things. A company which tools up for a new product or a new model has some faith and confidence both in the economy and in the judgment of its own management.

This confidence which is a prerequisite to making financial commitments is not a simple, child-like type of trust. It is enormously complex. It is intertwined with world affairs, military strength, tax policy, stability and integrity of government, technical progress, character of the business community, as well as popular psychology. Consequently, the creation and preservation of the faith necessary to support a public willingness to invest in America is not a matter for easy legislative formulas or simple persuasion by propaganda.

I introduce my remarks in this way because I think that any program to stimulate public participation in the capital markets should be undertaken with a sober sense of responsibility and with a realization that a sound long-term growth of public participation in the capital markets is dependent upon a deepened and broadened public understanding of those markets and of their relation to our economy generally.

Growing public interest in our capital markets is inevitable because more and more people have direct or indirect interest in investments. Look at the growth of investments by union welfare and pension funds and life insurance companies, not to mention the mutual funds. For example, it is estimated that more than 90 million individuals hold life insurance policies and 53 million hold savings accounts. Also, 14.5 million hold some form of annuities or pension plans -- all of which are, to a considerable extent, invested in corporate securities. These indirect holdings are in addition, of course, to almost 8 million individuals who own stocks.

The securities markets provide the medium by which the savings of the people are turned into productive facilities.

One characteristic of the American economy which has helped produce the standard of living which our people enjoy is constantly improving methods of production based on research and

replacement of obsolete equipment. This makes for mass production for a mass market so that the luxuries of one generation become necessities for the next. To keep our capital plant growing and improving, to maintain the expanding economy we now enjoy, there must be a continuous flow of new investment capital into our economy.

While retained earnings and reserves for depreciation provide more than 70 % of the funds to build and replace plants and equipment, continuous infusions of new capital are necessary for the economic bloodstream.

In the six years, 1934 through 1939, the amount of money devoted by corporations to plant and capital expenditures aggregated 25 billion dollars. In 1953 alone American industry placed over 28 billion dollars into new plants and facilities, for 1954 almost 27 billion dollars and business is planning slightly more for 1955. The use of depreciation reserves and retained earnings accounted for approximately 19 1/2 billion dollars of the plant and facilities expenditures in 1953 and about the same in 1954. In 1934 offerings, public and private, of corporate securities came to about 4 hundred million dollars. In 1939 the corresponding figure was about 2 billion 200 million dollars. In 1953 the amount was almost 9 billion dollars and for 1954 about 9 billion 600 million dollars.

I use these few statistics to indicate the enormity of expenditures required to keep American private enterprise growing as well as to point out the enormity of the increase in such expenditures over what they were twenty years ago.

If these generous infusions of privately furnished new capital are to continue to support our economy in the style to which we would like to become accustomed, there must be a merited public confidence in our economic processes. It is part of the essence of the free enterprise system that investment of capital is at the choice of the investor. There are no forced loans to the government to support state capitalism as there are in communistic countries.

Confidence in our economic processes means a lot of things. It means confidence that the government has a sound fiscal policy. Sound fiscal policy includes the control of government expenditures consistent with the requirements of national defense. It includes a tax policy that encourages investment in new facilities to make more jobs and better products. It includes a willingness to stand up

against superficially appealing expedients which lead to inflation and a budget out of control. These things the Eisenhower Administration stands for. The cost of living has been almost constant during a period of readjustment. The purchasing power of the dollar is being held steady. That makes people willing to make commitments for the future. Confidence in our economic processes also means confidence in our system of capital formation -- that is, our system of capital markets. Confidence in the processes of capital formation is not synonymous with an uninterrupted rise in security prices. The basic confidence must be a confidence in the integrity of the system for raising capital, in the integrity of our trading markets, and in the integrity of the administration of corporate enterprise.

In the operation of our capital markets we might depend entirely on an automatic system of self-adjustment. But would public confidence be maintained in such a system? Any such idea involves an inexcusably naive belief that good will always triumph over evil. Tom Paine once said in effect that government is necessary because moral principles don't operate without assistance.

It is inherent in the nature of things that there must be some legal restraints imposed on those who gather together and administer the capital furnished by others.

There must be laws, and there are laws, designed to keep our capital markets clean, so that people may deservedly trust the processes of capital formation. These laws provide that the investor is entitled to know what he is getting into when he buys securities. They provide a remedy for fraud practiced upon him in the purchase or sale of securities. They provide a duty to keep the markets for securities free of manipulation. They contain provisions for managements of corporations to give account of their stewardship. They provide for regulation of stock exchanges, brokers and dealers, and they grant powers and responsibilities of self-regulation to exchanges and securities dealers associations. I am not going to turn these remarks into a technical description of the federal securities laws. I merely point out in a general way the aims that those laws are intended to accomplish. To the extent that those aims are accomplished, the laws serve to buttress public confidence in our economic processes

However, the aims of these federal securities laws are not achieved automatically. Realization of those aims requires investors to read and understand the information which is made available to them. Realization of those aims requires that those who are in the

business of marketing and recommending securities bear the responsibility of getting through to investors the significant information about the securities they sell or recommend. Companies which publicly offer securities have a duty to assemble and disclose the material information about their financial condition. The discharge of the responsibilities of self-regulation imposed upon exchanges, dealers, and associations of dealers is of transcendent importance, since the integrity of our capital markets will be largely measured by the composite integrity of the securities industry.

The Securities and Exchange Commission has a variety of responsibilities as an administrative agency to (1) prescribe standards for disclosure, (2) to examine material filed with it to determine conformity with those standards, (3) to impose administrative penalties for violations, (4) to seek injunctions against violations or refer criminal actions to the Department of Justice for prosecution in the courts, (5) to implement with appropriate regulations general statements of congressional policy with respect to exemptions, manipulative activities, and other subjects as to which the Commission is given rule-making power.

Put another way, the responsibility of making the federal securities laws work is a shared responsibility. The courts, the Department of Justice, and the Commission have a share on the Government's side; But the companies which issue securities, the exchanges, the brokers, the dealers and associations of dealers and also investors themselves, have responsibility too. You in the securities industry and we on the Government's side both have to do with a business affected with a public interest. That public interest is related not only to the protection of investors themselves, but to the integrity of the free enterprise system and the soundness of the economy itself.

And that brings me to two points at which we should pause to take thought, serious thought. The first has to do with advertising of securities, the second with tips and rumors.

It might be possible to establish an effective federal policing of the advertising of securities. There is some official policing now in connection with new issues publicly offered and with respect to securities of investment companies. But by and large there is no routine supervision by the federal government of securities advertising generally. Yet any fair minded observer cannot but be

disturbed by the allurements held out to the public in much of the advertising found in the financial pages of our newspapers, heard over the air waves, or sent through the mail.

What should be done about this? Should the SEC request the Congress for vastly increased appropriations to check all advertising for possible violations of the general anti-fraud provisions of the statutes? Or should the self-regulating agencies of the securities business undertake to prescribe and enforce standards which take the flamboyance and the "come-on" techniques out of securities advertising? Self-regulation, recognized by the Congress since 1934, has notable achievements to its credit, including some in the field of policing advertising. But a job half-done is not enough. The limited programs of the National Association of Securities Dealers and at least one exchange are only a small sample of what can and should be done. The public interest which you serve, the just and equitable principles of trade which you seek to promote, suffer to the extent that your industry tolerates misleading advertising. The NASD and one exchange have already developed techniques and a staff to review some advertising. It would be an act of wisdom in the public interest for them and for other exchanges and associations to to apply these techniques more widely. Failure to do so in the face of justified criticism of undesirable practices indulged by an over-enthusiastic minority is an invitation to government to use the federal police power to stamp out abuses which a well-organized industry admits but against which it has not yet moved with grim determination.

In the long-run the public interest in fair advertising of securities will be served -- whether by the flexible and relatively inexpensive processes of self-regulation through legally recognized instrumentalities of your industry or by the more rigid and expensive processes of government.

The present federal securities laws contain some prohibitions against tips and rumors, but drawing a line between legitimate news and an irresponsible tip is difficult to accomplish by a penal statute. Moreover, policing by a government agency of the day-to-day conversations between dealer and customer and of the routine market letter would involve an enlargement of the role of the federal government in your ordinary business operations beyond anything seen or thought necessary in the depression or the war years. Here again is a subject to which your well-organized industry, with its legally based disciplinary powers over its members and with the powers of its members over their employees, should address its earnest efforts.

I used the words "shared responsibility" a few minutes ago to express the idea that the investor, the dealer, the issuer, the agents of industry self-regulation, and the agencies of government each has a part to play in helping the securities laws achieve their purposes. Used in another sense, the word "responsible" describes the attitude that should -- and fortunately in most cases does, characterize the members of your industry. An attitude cannot be legislated, but the lack of it can be tragic.

The federal securities laws do not bar the markets to penny uranium issues or low-priced speculative Canadian issues, or any other kind of speculative issue. They require the nature of the issue to be disclosed. Given that kind of law, responsible dealers in securities exercise discrimination in selecting what they offer and what they trade in. They exercise discrimination in selecting the type of buyer to whom such speculative issues are offered. They impose managerial control over salesmen to see that the facts about the quality of securities being sold are in fact communicated to customers.

The Securities and Exchange Commission is not empowered to condemn en masse issues of penny uranium shares or low-priced offerings from Canada legally made. But it can and does caution investors to find out what they are buying. It can and does combat illegal offerings. It can and does encourage and investigate complaints by those who have been defrauded.

But the best way to break up either illegal or unconscionable transactions in securities is to stop them before they appear. If people know what to watch for and are taught to appreciate the importance of watching for it, they won't be fooled.

A responsibility of a responsible securities industry is to educate inexperienced investors not only in the potentialities of the sound investment but in the dangers and pitfalls of the unsound speculation. A great challenge is being thrown to you who are in the securities business. Through you, under an Administration dedicated to the expansion of our free enterprise economy, the savings of our people can be channeled into creating the means of production for a better life for all our people. But the long-term success of that process depends upon its inherent integrity. "Invest in America" must be more than a slogan for a campaign. It must be a piece of advice which we can honestly give to our people over the years in confidence that the system by which they commit their savings to American enterprise is as fairly conducted as an alert government and a responsible business community can make it.

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