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of

WILLIAM O. DOUGLAS

*Chairman, Securities and Exchange Commission*

at the

TEXAS JACKSON DAY DINNER

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Hotel Adolphus  
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Though this is the first time I have been in Texas, I have felt ever since stepping off the train like him who, long absent, has at last come home. Your inimitable hospitality alone was sufficient to create that feeling. There is also a close resemblance between the climate of opinion, the frank and outspoken manner, the two-fisted attitude, the progressive idealism of Texas and that part of the Far West which I still claim, along with Connecticut as home. But there is even more to it than that, for the Securities and Exchange Commission and Texas have had a long and a close association.

The advent of the S. E. C. is closely associated with the activities of two statesmen from Texas. The Commission administers the Fletcher-Rayburn Act of 1933, the Fletcher-Rayburn Act of 1934 and the Wheeler-Rayburn Act of 1935. That is how the S. E. C. acquired its Sam Rayburn hallmark. And we are proud of it, as I know you are. Your great Congressman's part in this typically Texas program to restore to finance the old-fashioned standards of conservatism, honesty, and fair play is well known. Less familiar, perhaps, is the fact that when the fight for the Stock Exchange Act was at its hottest in 1934 and the outlook for its passage was dark, a fellow-Texan supplied the final ounce of pressure necessary to put the measure through on the Senate side. He also remained steadfast on the firing line, as respects the other Acts, and never retreated. I refer to Jack Garner, Vice President of the United States.

So when I talk about the S. E. C. in Texas, I am talking about it in its home state.

For these various reasons, I almost feel entitled to salute you this evening as "Fellow Texans".

There is another reason also why I mention the S. E. C. on this Andrew Jackson anniversary. In common with a host of other Roosevelt and Democratic accomplishments, its history is strong in the Jacksonian tradition. The struggles which preceded the advent of the statutes it administers are reminiscent of the battles which Old Hickory had with the financial powers.

The first of the laws under which the S. E. C. operates is sometimes called the "Truth in Securities" bill. It was passed to give the investing public honest and complete information about new issues of stocks and bonds. It was passed to restrict the illegitimate enterprise; it was passed to protect the honest business, and the investor. Nobody could object to the principle of this measure. Neither could its need be questioned - at least not by anyone familiar with the uninforming and misinforming salesmanship by which new issues were often marketed in pre-depression days. Yet the cry was raised that corporations and underwriters, no matter how well intentioned, would not dare to issue new securities, however sound; that the restrictive influence of that Act would be so severe as to paralyze the capital markets. Yet corporations today accept the new requirements as a matter of course. The ultimate source of most complaints as still are made today, is to be found in the proponents of questionable schemes which we have scotched. Honest business through the machinery of the Act, has offered more than ten billions of securities for sale. And the public has been saved hundreds of millions of dollars through the Commission's refusal to allow fraudulent or shady offerings to be made to the public. The Securities Act of 1933 has not only been a protective influence for investors; it has also taught many managements many things about their own companies.

Thus one of the important influences in bringing to light the Coster-Musica scandal was the fact - not generally known - that McKesson & Robbins was planning a new bond issue, and that the necessity for presenting an honest picture of the company in the registration statement was the occasion for Mr. "Coster's" associates asking him many questions to which he was not able to give a satisfactory reply.

Hardly had the fight for honesty in the sale of securities been won when the Securities Exchange Act of 1934 governing trading in securities gave reactionaries and inactionaries a new opportunity to raise cries of calamity. Here again the objective of the Act was conservative and old-fashioned. It sought to regulate stock exchanges; to prevent pool operations; to control "insiders" abuse of their positions; and to eliminate many other interferences with the natural flow of security markets. Here again the purpose of the Act was unassailable, both from the point of view of honest business and from the standpoint of protection of the public. But again there was protest and again false issues were raised. Thus Richard Whitney testifying against the bill gave this dire prediction if the margin requirements were included:

... "we believe we will have panic and an absolute breakdown of the security markets of this country, naturally to the great detriment of those investors holding these listed securities."

There were many other objections, but most of them came down to the argument that if professional traders were not allowed a free hand in maintaining an artificially active market, the market could not be kept alive by the unstimulated orders of legitimate investors. But events, both before and after the Act, have demonstrated that a free and open market for American investors is preferable to a sizzling, boiling market for Wall Street operators.

The reactionaries and the inactionaries objected even louder and longer to the Act of 1935. This measure, as you know, deals with public utility holding companies and their widely scattered operating companies. It has particular impact on holding companies separated from their operating companies by whole mountain ranges of intermediate holding companies.

The Holding Company bill proposed that these systems should be geographically and financially integrated. Some ingenious person, with a gift for picturesque description, but not for accuracy, labelled the integration provisions of the Act the "Death Sentence." By the use of this misinforming title an attempt was made to create the impression that the SEC was going after the utility industry of the United States like Saint Patrick went after the snakes of Ireland. The impression is, of course, entirely false. The law is designed to eliminate only the superfluous or injurious intermediate company, which has no real economic function but lends itself to manipulation of securities, the pyramiding of control, the abuse of minority interests, and the milking of operating subsidiaries. The Act is designed, by limiting the geographical expanse of any one holding company system, to put some ceiling on size; to place some curb on concentration of financial power in the electric and gas industries.

As has been the case with most liberal measures, these Acts were all forged in a furnace of intense heat. Jack Garner was telling me the other day that they even labelled him as a Communist. The opposition to the enactment of these laws was reminiscent in quality and intensity to the opposition confronting Andrew Jackson in his encounters with Nicholas Biddle and the Bank of the United States. But today most of the heat has gone up the chimney and most of the opposition fires are burning low, and those like Jack Garner who were carrying the brunt of the battle and who were dubbed as Communists have been given well deserved recognition for their constructive leadership in a liberal cause.

Today the basic principles of these Acts are thoroughly accepted by conservatives and liberals alike. Few could now be found who would wipe them out and restore the anarchistic system which preceded them. Certainly there are those who think this legislation can be improved upon. But over all, these laws stand as permanent milestones of a broad liberal advance and a strengthening of the capitalistic system under the leadership of Franklin Delano Roosevelt.

And so I smile when an occasional critic complains that the objectives of liberal or reform government are not compatible with the objectives of honest business. I smile because the daily work of the SEC belies this empty claim. Business accepts these Acts. Its representatives sit at our round table with us. Many of our accomplishments are joint accomplishments -- demonstrations by liberal government and honest business that they can live and progress together. There are many evidences of this. I need cite only two. The first reflects a new sentiment in Wall Street best stated by one of its most progressive leaders, the new President of the New York Stock Exchange. Recently he said:

"The Stock Exchange welcomes government regulation and supervision. \* \* \* We have a joint responsibility with the government to see that the people of this country have as sane, as honest and as efficient a market as it is humanly possible to provide. The old maxim, 'To govern well, govern little,' will not be applied by thinking people today as our problem. We do not regard government as a necessary evil. Our government should be our greatest pride and a part of the very fabric of our lives. \* \* \* There are some who find any supervision of business by government repugnant. We have no patience with that attitude. Such a viewpoint is unreal and is not likely to attract any substantial following among practical men and women."

The second is illustrated by a step which marks the dawn of a new era in the attitude of the public utility industry toward government supervision. In the closing days of 1938, the utility industry, unanimously and without coercion, filed with the SEC their tentative plans for complying with the integration provisions (the so-called Death Sentence) of the Holding Company Act. To be sure, we asked them to submit such plans to us; but the request was by no means an order. But they did not take the position that it was our part to submit the suggestions and their part to oppose them; instead, they replied in a cooperative spirit. And we are now holding round-table discussions with them in a common endeavor to mould these plans to fit the law; to reconstruct those systems along sound, conservative lines; and to preserve the financial integrity of those systems in the process.

Thus history repeats itself. That which was once deemed radical becomes the strength of conservatism. It has been true of banking legislation, of financial legislation, of social legislation. When the heat of battle is lifted and emotions cool off, reform of yesteryear becomes the standard and accepted practice of today. The workaday world translates into practical realities the liberal's ideals.

This depicts in miniature the function of the liberal in our government. His function and the function of the Democratic Party have been identical. It is the function of supplying the energizing and directive force to keep government abreast of economic and social change. It is the task of making democratic government effective by making it responsive to social and economic change. It is the undertaking of making certain that government, as the agent of a free people, is able and willing to serve the needs of the people at those points where self-help breaks down. That was the service rendered by Andrew Jackson! That is the significance of the great leadership of Franklin Roosevelt. Those men and other Democratic leaders have been the pioneers in keeping our government a servant of the common man. They are responsible for keeping Democracy a living force rather than a ritualistic form. They have been capitalism's best friend by continuously endeavoring to keep it conservative, respectable, and honest. No leaders have done more to preserve the vitality and strength of both capitalism and democracy than have Jackson and Roosevelt.

Both Jackson and Roosevelt took office when democracy was at a low ebb; political democracy in 1828, economic democracy in 1932. Both Democratic leaders were bitterly opposed by those who, having gained for themselves privileges and emoluments through their domination of the old system, were bitterly against any renaissance of the democratic ideal as revolutionary and destructive. The work of Jackson is over; and history has returned its verdict upon it. The work of our President is still unfinished. But so much has been already accomplished that we may face the judgment of the future years with confidence. The Roosevelt Administrations will take their place beside the administrations of Jefferson and Jackson as the greatest periods of peace-time advancement in American history. To those who believe in Democracy, the years of greatest significance are the years in which democracy has moved forward the most.

On the surface, the Nineteen Twenties had much to recommend them. But everyone knows how little genuine progress was made in the years between 1920 and 1930. When we look back upon those years, what accomplishment can we discover that has stood the test of the few years between that time and now? To be sure the Old Guard of business and finance were busy taking care of themselves. Their financial machines located in far distant financial centers were syphoning off the wealth of this and other regions of the country. They erected certain monuments by which to remember them, although the memories are hardly happy. The intricate holding company structure of incorporated pyramids such as the Insull and Van Sweringen systems was perhaps the most conspicuous of their accomplishments. The investment trusts which in 1929 alone attracted some two billion dollars of public money were perhaps the most costly. There was little of lasting value even to industry itself, since immediate profit was made only at the price of future loss. I do not think it partisan to describe the 1920's as a barren period from the standpoint of democracy. Certainly what the decade produced was crumbling even before the decade was over. Nor did the Nineteen Twenties ever hold out much more than empty promises to the ordinary citizen. The Old Guard were never more than incidentally interested in the welfare of the common

In the Jacksonian period, however, progress was fundamental. Andrew Jackson was greeted by no Bull Market. At his inaugural, a Supreme Court Justice remarked that "the reign of King Mob is with us." Daniel Webster, amazed because the inaugural had attracted visitors from 500 miles around -- at a time when it took four days to get from Philadelphia to Washington -- said, "One might have thought that the country had actually been saved from some great danger." But Jackson was never popular with those in the high places. Following the vital Administrations of Washington and Jefferson, political control had settled in the hands of an aristocratic clique. The presidency appeared likely to become the permanent property of the first families of Virginia and of Massachusetts. It was Andrew Jackson, from Tennessee, who broke this tradition; Andrew Jackson, the Border Captain, elected by the poor men of the cities and the rough men of the frontiers. As one historian has put it: "With the election of Jackson, the people of the United States may be said to have come into the possession of the powers which had been held in trust for them by the founding fathers."

And as it was with the man who founded the Democratic party, so it is with the man who now leads it. I need hardly remind this audience of the circumstances under which Franklin D. Roosevelt delivered his first inaugural. Nor is it necessary to review in detail the progress made since that forbidding day. Like Jackson, the President has allied himself with the interests of the common man. Both political democracy and economic democracy have by tradition become Jacksonian and Rooseveltian principles. Both principles are fundamental to the general welfare. It is the privilege and the responsibility of all real democrats to see that those principles are kept alive as they were by the triumph which Democracy won a hundred years ago, six years ago and two years ago.

The requirements for such a triumph make it plain that the Democratic party must continue to be, as it has been for more than a hundred years, the pioneering party of the nation. Never has there been a greater need than at the present time for the frontier spirit which thrives upon attacking barriers and extending boundaries. Never has there been a greater need for a strong united front by all liberals. The nature of the opposition demands it. I do not mean to denounce opposition. I would be the first to defend it. It occupies a high place where free speech and democracy flourish. But let us not be deluded by the specious form which it currently is beginning to take.

Even the old line Republican is trying to appropriate the progress which has been already made by taking it over and putting his own label on it. The enemies of the New Deal no longer openly advocate its destruction. Now they are paying lip service to its principles. Knowing that they cannot destroy this advanced social program, they hope that they may be able to get control of it. On its face the issue thus presented raises no basic difference between the two parties. On the surface Democratic liberalism is adopted by the Republicans.

Such an attitude is, in its way, a compliment to the New Deal and to its endorsement by the people. We Democrats may be pardoned for taking pride in the fact that our traditional opponents are seeking to identify themselves with Democratic objectives. They admit that our program is working. They concede that it is practical. The Inactionary impliedly confesses that the

hobgoblins which he detected in these laws -- at the time of their passage -- were merely examples of what President Roosevelt has referred to as "seeing things under the bed." But although we may appreciate the compliment we should not be deceived by it.

For we know that although lip-service may be rendered the basic principles, danger lurks at two points. The first is the risk of amendments to these laws which will emasculate them; the second is a perfunctory administration of this broad social program. As much is to be feared from those who claim to endorse the principles but who question the laws and attack the agencies which administer them, as is to be feared from those who reject the principles themselves. We would not entrust a program for improving our highways to the person who has all along insisted that the old dirt roads are good enough. When any program is "adopted" by those who have been its traditional enemies, that program is really endangered. They want it merely for their political prospectuses.

But the basic issues are even more fundamental. The New Deal has not come to the end of any road. The Democratic Party has never been willing to be completely content, along with the conservative party, with accomplishments to date. Its force, its virtue, its contributions to our national life lie in its willingness to meet change and to defy inaction.

Certainly the present is no time in which to make a compact with inaction or to take counsel with reaction. Here and abroad the world is moving so rapidly that no one can keep up with it by standing on the ground he has already won. In Europe today some nations have already been forced to choose between reaction and revolution. In this country we have a better choice -- a choice between reaction and progress. The Democratic Party has the tradition, the brains and the courage to supply a progressive leadership under liberal banners without which that choice cannot be long preserved. The function of the Democratic Party has always been to supply that leadership. This is its Jacksonian tradition. Let us keep Democracy strong and united in that tradition! If we are successful it will remain the party of progress, making neither concessions to nor compromises with any foe of capitalism and democracy - whether he be on the extreme right or on the extreme left. If we are successful, we can have progress with law and order, with respect for private property, and with reverence for individual liberty, without the lawlessness characteristic of the extremists on either side.

In this way I am certain that the progress we have already made will be preserved and extended. And I know that no more enthusiastic support can be found for such program than the support given it by the people of Texas, a coming industrial state of the Union. I know too that the Lone Star State, so long committed to the principle of Democratic unity, will not countenance any attempt of any Third Party to take from the Democratic Party its stalwart espousal of the liberal movement.

So tonight we pledge ourselves to keep our Democratic party genuinely progressive; never to allow it to become contentedly reactionary. Tonight we hail the New Deal not as an experiment but as an accomplishment - an accomplishment which has deservedly earned the approval of the people. Tonight we look back on the Nineteen Thirties as a period of tremendous progress - a progress not measured by mergers and ticker-tape but by the common welfare and the general good. Tonight we salute progressive and enlightened business which recognizes that the principles of liberal government and the principles of modern business are wholly compatible. Tonight we hail the ability of liberal government and honest business to work together harmoniously and constructively to a common end. Tonight we acclaim the New Deal as a milestone in the advancement of Democracy - advancement under the Party of Democracy which Andrew Jackson founded and which Franklin D. Roosevelt leads today.

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