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HON. JAMES M. LANDIS

Commissioner, Securities and Exchange Commission

at the Fourteenth Annual
Dinner of

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MR. GAY: For a long time past, the newspapers have been filled with details regarding a group of men in Washington, known as the "Securities and Exchange Commission." For the first time, I met them last Friday, as a group. I had had the pleasure of sitting alongside Mr. Landis out in St. Louis, just as we are sitting here today. These men, I find, are definitely interested in all the problems that affect the Exchange. They are anxious to cooperate with us in every way possible, and, as an evidence of their interest, Mr. Landis is here to speak to us tonight.

I take great pleasure in introducing Mr. James M. Landis of the Securities and Exchange Commission.

COMMISSIONER LANDIS: Mr. Toastmaster, Gentlemen of the New York Stock Exchange:

Naturally, it gives me great pleasure to be here. For a time, I thought I had come to the wrong place. I was not sure whether or not this was a gathering of the Metropolitan Opera, or whether it was the New York Stock Exchange. Mr. Gay assured me that I was where I should be.

For one with my background to talk to you people is an opportunity that I really want. My background, as you know, is primarily academic and my concern has been with education. You people, in your work here at the Institute have realized that education is nothing esoteric, that there is nothing peculiar about this thing we call "education." Contrariwise, it is concerned with very practical things. I trust that you have found out that learning, as such, does not matter too much. Indeed, if I had to criticize American educational methods, I would say that there was in them too much emphasis upon learning, with the result that many of our graduates have too much inert knowledge in their heads. I hope we have all learned the lesson, that mere learning is not the thing that counts, but that what counts is an ability to handle materials. It is impossible, of course, for us to know enough, so that we need learn no more. Consequently education must emphasize and promote the ability to handle the materials with which one is called upon to work. That ability naturally includes a sense of relevancy about those materials.

In the field of finance, the educational requirements must necessarily be similar to those of any other profession, and I choose to call the field of finance a "profession." These requirements must first and foremost look toward the development of a broad background. They must, of course, concern themselves with technical matters. But the emphasis must not be too much upon the technical side. Rather the goal should be the development of a rich background of knowledge that will give one something upon which to project the immediate present. It is along these broad lines that I want to talk to you about our job and our relation to you.

The objectives of the Federal Government in its handling of securities are now quite patent. Almost a year has elapsed since we, as a Commission, took office. During that year these objectives towards which we are aiming have become much clearer to us and to you. Those objectives, broadly speaking, might be classified as three: one, with which we have no direct concern, is the regulation of the use of credit for speculative purposes. The other two are those with which we have a direct concern.

The first is the effort to aid in bringing about fairer practices in security transactions. The second--to me always the more important--is the attempt to bring home to the investor better knowledge of what he is doing, and to furnish him with better norms by which to estimate the character and quality of the thing that he is buying, a task with which the exchanges for many years have been occupied.

As I said, these objectives are becoming clearer, and happily so, because, as a result of that, the cooperation, of which Mr. Gay spoke, is not only possible but real. In St. Louis, where I had the privilege of talking to the Association of Stock Exchanges, I made the remark that the Securities Exchange Act is as much an experiment in the self-government of exchanges, as it is in the regulation of them, and I profoundly believe that. Self-government is, of course, the desirable thing. Everyone will admit that the less regulation there is, the better it will be, provided the objectives are always kept clear; and the better the self-government, the less need there is for regulation. It is with that attitude that we have dealt with the exchanges, and it is with that attitude that the exchanges have dealt with us, and on that basis we have built sound and effective methods of cooperation.

The aspects of the recent federal security legislation that seem to me to concern particularly you people of the Institute are, first, its relation to the mechanics of exchange transactions. I do not regard that aspect of the legislation as the paramount matter. It is, of course, important to you to understand the way in which we actually touch trading on the exchange. You people are already familiar with many of the technical details of such trading. We have had to familiarize ourselves with them to a degree, in order to mark out their effect upon the larger movements in finance. It is from a viewpoint of that nature that these technical matters ought to be studied. Your objective should not be mere technical competence in the execution of transactions, but a knowledge of just how these various technical matters are of importance to and affect the wider flow of capital in industry.

This means, of course, that you are brought right back to the recognition of the functions of the exchanges. A function, about which I think there is little disagreement, is that exchange transactions as such should be reflective of values, rather than directive of them. Sometimes that has been forgotten. Sometimes there has been an intentional effort to forget. But the objective of the exchange must be to keep clear that the transactions on the exchange do not of themselves create values, but reflect the values that are created elsewhere.

Naturally, to understand the source of those values, one is driven elsewhere, and that "elsewhere" implies knowledge of the industries in the values of which the exchanges are dealing.

To my mind, the type of person that should be graduated from your Institute, who, I assume, is also your conception of the type of person that should be connected with the Exchange, represents a combination of three different qualifications. First, he should be something of an accountant. Secondly, he must be something of an economist. Thirdly, he has to be something of a lawyer. And, of course, finally, he must have the attributes of character and integrity that should mark any person holding a position of trust and confidence.

But let me take up these three qualifications. Naturally, you have to be something of an accountant, because the accountant's effort is one to translate, through the dollar sign, the efficiency of a particular business entity. He seeks to do that by his financial criticism of the company, for the essence of a financial statement is that it is a criticism of the company's operations. Obviously, you must be able to understand and interpret such statements.

That, however, is not enough. You must have the ability to go beyond the accountant. You must be able to project a particular enterprise upon the background of movements in that industry, and further to project those movements upon the background of national and international events. And this, in short, means that you have to be something of an economist.

Again, you have to know that it is that you are dealing with in your business. You have to know just what a particular share of stock, or a bond, or a debenture represents. This means that you have to be something of a lawyer to understand what rights these pieces of paper give their owners. Not only is it important to know what these rights are if the enterprise is a going one, but as important are the rights upon liquidation, bankruptcy or receivership.

I assume, naturally, that the educational courses in the Institute move towards these ends. Our legislation moves towards exactly the same ends. It is very clear to me that much of the theory of both the Securities Act and the Securities Exchange Act is one of seeking to educate, rather than regulate. So far as securities are concerned, the legislation seeks again and again to bring out the facts that are significant with regard to securities, and our efforts as administrators are directed to towards the same end. Surely legislation of this character bases itself on a reliance upon the economic self determination of the nation, upon a belief that we, being a nation of investors, are wise enough to guide our own destinies, and such a basis is, I submit, truly democratic.

That fundamental idea that underlies these two pieces of legislation is already making good headway. It has now become the function of government, as well as of the exchanges, to educate the public not only as to the nature of securities, but as to the manner in which transactions in those securities occur. In other words, government seeks to aid the exchanges in giving the public a conception of their functioning. I do not need to tell you that the public has many misapprehensions as to what happens on exchanges, or on the New York Stock Exchange, for example. It is as important for the exchanges as for the public to have those misapprehensions, whatever they may be, cleared away. And government has now as much the duty of educating the people as to the operations of exchanges, as the exchanges have themselves. True, we are charged with a responsibility of directing those operations, but we should not forget that one way of directing them is to make them intelligible to the larger public, and thereby allow that public to direct the course of exchange transactions.

I already think that we have had some success in that direction. As to exchange transactions themselves, it is not, for example, our function to regulate volume on the exchanges. Volume on the exchanges is something

that should correspond to the national need to make liquid, in the sense that a corporation's security is made liquid through the exchange mechanism, certain of our national wealth. How much of this wealth should be made liquid is something that nobody can answer, and the best way consequently is to rely upon the accurate reflection of general public desires and needs for the achievement of the appropriate degree of liquidity and therefore of volume.

Another illustration is the relationship of this legislation to stability in prices. No one can regulate stability where there is no stability in the economic situation. It is the function of the exchanges to reflect the character of the economic movements. There is no need for the exchanges to direct price movements by transactions on the exchanges. What I gather we all want is as accurate a ratio between price movements in securities and basic economic trends as the financial machinery can give us.

Before concluding tonight, I want to leave with you another thought. You people who have just received your certificates from the Stock Exchange Institute cannot and dare not think that you are through with education. Unfortunately, it is the common lot of all of us to keep on being educated. This is as true of the exchanges as it is of government. In our handling of this problem of security regulation, we of the Commission are trying to proceed as intelligently as we know how. We have, and naturally will make mistakes. At the beginning, the exchanges will naturally be annoyed by the harassment of certain technical details, but this will gradually disappear as the period of adjustment ends and as an increasingly wiser and more intelligent administration develops.

The thing that you have the right to demand from us--and you have a right to demand things from us because we are but servants of the public of which you are a part--is a modicum of intelligence in the handling of our common problems. And more than that, you have a right to demand integrity from government in the handling of these problems. Naturally, some of our moves will be experimental, and we will have to withdraw as we are convinced of the unwisdom of a particular move, but you have the right to demand that the judgment we make shall be a judgment not colored by mere partial analysis, but an honest judgment, both sincere and based upon an adequate exploration of the facts. These things you have the right to demand of government. I hope we can furnish them, and, in return for that, we hope to have the continued type of cooperative effort in tackling and in handling our common problems that has been exhibited by the financial community as a whole to date.