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ADDRESS

OF

HON. JOSEPH P. KENNEDY

CHAIRMAN OF

SECURITIES AND EXCHANGE COMMISSION

AT

NATIONAL PRESS CLUB

JULY 25, 1934



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**Address of Hon. Joseph P. Kennedy, Chairman of
Securities and Exchange Commission, at National
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I am grateful for this opportunity to talk to the members and guests of the National Press Club and, through its courtesy, the radio audience. It is through the press that the public will become acquainted with the work and progress of the Securities and Exchange Commission. The success and effectiveness of the work of the Commission will be dependent in a large part not only upon the cooperation of the exchanges and their members but upon the public's understanding of the objectives of the Securities Exchange Act and the steps taken to gain those objectives. The fine spirit of cooperation which the press, the stock exchanges, and their members have shown so far has been most encouraging.

The fact that I turn to the Nation-wide audience to discuss the work of the Securities and Exchange Commission does not mean that the Commission proposes to carry on intensive propaganda regarding its activities. Its task is essentially technical—a job that must be done in a businesslike way, without political publicity of any sort, although, of course, public scrutiny will never be avoided or discouraged.

Every member of the Securities and Exchange Commission knows perfectly well that this Commission faces one of the most difficult and one of the most delicate tasks ever given a governmental agency. In our hands has been placed the responsibility of giving all the aid of which government is capable to the better organization of the mechanism through which the savings of the people find their way into securities. I believe that this Commission is fortunate in having such men as Mr. Landis, who had a large hand in drafting the law; Judge Healy, who did such splendid service as chief counsel of the Federal Trade Commission; Mr. Mathews, who is rich in the experience of supervising security issues; and Mr. Pecora, whose striking contributions to public service are well known and deeply appreciated by the people of this country.

Everybody says that what business needs is confidence. I agree. Confidence that if business does the right thing it will be protected and given a chance to live, make profits, and grow, helping itself and helping the country. But the old things business did—the old practices it followed—are, some of them, no longer the right ones.

But not all the old practices are wrong, and there is no belief, at least none in the minds of the Securities and Exchange Commission, that business is to be viewed with suspicion; that it must be harassed and annoyed and pushed around. Domestic tranquility is as essential to business as it is to our political system, and it was stated as one of the primary objects to be achieved through the Constitution.

We of the Securities and Exchange Commission do not regard ourselves as coroners sitting on the corpse of financial enterprise. On the contrary, we think of ourselves as the means of bringing new life into the body of the security business. We are not working on the theory that all the men and all the women connected with finance, either as workers or investors, are to be regarded as guilty of some undefined crime. On the contrary, we hold that business based on good will should be encouraged so that it may be helpful.

It would be idle to deny that confidence is lacking in this country, and this is especially true of the security business. It is true that today business is better than confidence. There are several reasons for this. An important one is that in any time of change capital, always notoriously timid, shrinks from taking new positions. There is nothing unusual in this; it is caution born of experience.

I conceive it to be an important part of the job we are trying to do here in the Securities and Exchange Commission to reassure capital as to its safety in going ahead and reassure the investor as to the protection of his interests, by restricting certain practices which have proved to be detrimental to their interests, and by making available adequate information to the public upon which it can act intelligently. We regard ourselves, as the President has said, as partners in a cooperative enterprise. We do not start off with the belief that every enterprise is crooked and that those behind it are crooks.

We want to see the wheels turn over and gather speed. We want to see the security business, by far the greatest in volume and most important in its effects of any in the country, go forward on a broad scale.

To bring that about we shall not sit as a prosecutor, hopeful of bringing in a verdict of guilty. We shall seek to help all proper enterprises by helping them establish new checks and setting up more positive standards. We believe in affirmation, not negation.

It is difficult for a man to be a prophet. There have been too many prophets already in and around the stock exchange, so I am not going to take on that task. Accordingly, I shall not try to tell you what the Securities and Exchange Commission will do, but I can outline some of the things it won't do.

The Securities and Exchange Commission is authorized by the law to begin active regulation of the stock exchanges September 1.

By that time many of the rules and regulations will have been formulated and announced. I can now tell you briefly the spirit in which we are tackling our jobs and can outline the help we believe the country will receive, if the job is well done.

We see at the present time only a little stream of capital issue where before there was a flood tide. We see vast credit reserves left untouched except for the drafts made upon them by city, State, and Federal demands.

Why is this? Obviously, because business enterprise has been seriously wounded and needs to be nursed back to health and confidence. Some will try to tell you that pioneering and daring in business have been discouraged by the new stock exchange law. Don't let them get away with that, for it is not true. No honest man—no decent institution which seeks to render service instead of merely achieving profit—need fear the regulations that have been set up.

The regulations generally are broad in character and rest squarely upon the principles of ethics applicable not only to business but to everyday life. The success of the regulations will depend in part upon the wisdom with which we of the Securities and Exchange Commission apply them, but, even more, the success will rest upon the manner in which they are accepted.

The whole motive of the Security Act is to be found in the effort—the necessary and no longer escapable effort—to make finance more responsible.

There is to be no vindictiveness in its interpretation, no concealed punishment to those who must live under it. There are no grudges to satisfy; no venom which needs victims. The rules are simple and honest. Only those who see things crookedly will find them harsh.

The Commission will make war without quarter on any who sell securities by fraud or misrepresentation.

In common with all other forms of business, financial enterprises require profit to keep them going. There is not the slightest thought of eliminating or restricting proper profits. It is a commonplace to say that the recovery program to be finally successful needs a sound and broad security market which provides, as an accompaniment, a very large and regular tax flow to the Treasury.

Such a market should be truly barometric. It should reflect the actual economic conditions, and all the manipulations that might be invented would be futile if the bases did not justify a rise. The earning power of a nation should be the controlling factor in establishing security levels, and the security business itself has the right to claim part of this earning power.

The billions of dollars of capital required by the war, and the many billions since, have made in this Nation a vast number of security holders. From a few hundred thousand before 1916 who

held securities, more than 20 million became investors during the war, mostly in bonds. And in the period succeeding the war, these people turned to the leading exchanges and to the investment bankers and brokers for further investment.

Who, then, dare say that these more than 16,000,000 stockholders and bondholders have not a claim upon the Government to protect them? It was the Government largely who brought them into being, which urged them to become investors. Can there be any doubt the Government owes them the responsibility to check improper financial practices—that it owes this vast army responsibility to supervise the industry? Certainly not. And the very fact that the Government has taken these steps, which are purely protective and in no sense finally prohibitive, will do more to restore and upbuild confidence in security trading than any device that has been employed since the New York Stock Exchange met under the buttonwood tree in 1792 at a place that is now in Wall Street.

Wealth in the form of corporate securities can be maintained and developed only by a continuous free and open market, where the investors may buy and sell their securities assured of the going price and protected from sharp practices. And it is my belief that the investing public will find the markets to be firmer in their foundations because of the safeguards and because of the increased marginal requirements and the elimination of shoe-string speculators.

Publicity will be an important element in the new conditions, publicity, not of an occasional nature, but regular and informative. It will not be enough for a new enterprise to be candid and in its original prospectus; it will supply its investors, from time to time, with publicity of such a nature that all will be as well informed as any individual could be. The greater the publicity, the more protected the public will be and the more corrective the influence upon the financiers. Those who inveigh against publicity do so usually for private purposes. The sort of publicity we have in mind with respect to corporations will do them no harm and the public much good.

The Securities and Exchange Commission desires to encourage proper investments. But, at the same time, it should be pointed out that the speculative risk in any investments, whether it be stocks or bonds, will be present in the future as it has been in the past; for no body of men, no government, no nation, is sufficiently wise to define the perfect investment, or to guarantee it, or to eliminate the risks of speculation.

There will be an effort made by the Securities and Exchange Commission constantly to keep in mind the larger aspects and to avoid the nuisance rules. Otherwise the restrictions might become eliminations.

Recently an important economic research institution, privately endowed but operating for the public benefit, gave testimony of the enormous spread of investments in America. It discovered the following:

Between 6 million and 10 million individuals own bonds and between 9 million and 11 million individual men and women in the United States own stock. Every ninth or tenth man, woman, and child in this country probably has a direct stake in the Nation's security markets—which means at least one family in every three. Of the several million stockholders, about a million are employees who were sold shares by their employers. Another million are public-utilities customer-owners. Over one-fifth of all the corporate stock outstanding is held by individuals with net incomes of less than \$5,000 a year. The total market value of outstanding securities in 1932—the worst year of the depression—was at least 100 billions. The value of stocks owned by individuals is nearly, and may even exceed, 50 billions. Thus, nearly half of the value of all outstanding securities is in the hands of individuals. Through ownership of life-insurance policies and payment of insurance premiums, a considerable portion of which are invested in bonds, more than 50 million people are indirectly but nonetheless vitally interested in the security markets.

The investor, even the casual investor, has a definite and valuable function. Organized markets, operating freely and openly, are impossible without him. And without him financial soundness, which implies a regular flow of moneys and credits, organized and maintained by security markets, would be disrupted and practically ended.

If we of the Securities and Exchange Commission do our job well, and if we are helped by those we want to help, the "new deal" in finance will be found to be a better deal for all.