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FINANCE IN A CHANGING WORLD

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Commissioner, Securities and Exchange Commission

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I have chosen as my subject today, "Finance in a Changing World."

I have taken this subject with some hesitation because I realize that while our concern at the Securities and Exchange Commission is almost entirely with finance, your membership represents a cross-section of the business and professional elements of Los Angeles and is thus only partly concerned primarily with finance. Of course, I suppose I should recognize that it is pretty difficult for any of us to get entirely free of finance in some form, try as we may. Finance is a big word. In its implications, it cuts across the whole of American life. The trends of finance are the trends of the nation and, at times, the trends of finance may bear more than a casual relationship to the trend of our civilization. Certainly a well-organized, smoothly operating financial system is an almost certain concomitant of a well-organized and happy economic system. And as surely, too, disorganized finance may, as we have too recently seen, disrupt our whole American life. The even flow of finance is vital to the even flow of industrial production, and hence to the stability of labor conditions and farm conditions.

We are now, beyond a question of a doubt, in the midst of an era which will produce profound economic changes throughout the world - changes perhaps violent, perhaps subtle, but at all events universal. It will not be possible for us to insulate ourselves wholly against these changes. We tried that once with what for a time appeared to be signal success - but the day of reckoning has been a long and painful one. We shall without question have to adjust our affairs to meet the readjustments in the world which seem inevitable. But these adjustments need not be violent if we can but open our eyes to the probabilities of the future. We must reckon

with those probabilities, for not to do so would be to bet the future of America blindly. This we cannot risk. To look into the future is not an easy matter when the horrors of the present rise so precipitously before our eyes. It is difficult to look through the clouds of war in an effort to envisage the kind of a world which is likely to exist after those clouds have been dissipated. It is no simple matter to retreat to the quiet deliberation of things which may be five or even ten years ahead of us when the thunder of cannon and the cries of violent death are immediately in our ears. But we must try, and in that effort we should remember that we in America may have the opportunity to play a very large part in actually determining what kind of a world we shall have when the roar of cannon finally dies away. I want to examine with you today, in a very broad and general way, what we may do to equip ourselves for the task which lies ahead.

It has been wisely said that what is past is prologue. Perhaps from a study of what has happened under similar circumstances in the past it may be possible for us to get some idea of what we may expect in the future. And, more important, this backward glance may lead us to some definite conclusions as to the nature of things which we do not want to permit to happen again. We may be able to find some marks to help us lay our course for the future. I realize that many things have changed so much in the world as a whole that some of the indices of the past may prove most misleading. But we cannot afford to assume that things - unpleasant and destructive things - which have happened in the past will not happen again simply because we have once had the sad experience. Experience, of course, is of no use unless it can serve as a basis for a course of future action.

That finance of the future may be quite different from that of the past is a possible conclusion to be drawn from the experience of the last war. In 1914, the New York Stock Exchange was a very much smaller and more localized organization than it is today. Trading was carried on in a comparatively few securities, by present standards, and the volume of shares was not large. Investment banking was carried on by a few old and well established firms mostly within a limited radius of New York. The Federal Reserve System was less than a year old. There were many million American investors, but their savings were invested almost entirely in insurance or in small local enterprises. They came very close to being real partners in the businesses in which they had invested. They often knew the directors and officers of the company personally and they knew just about everything that they and the business were doing. Of course there were some very large corporations too, but even United States Steel was less than fifteen years old. There were then almost no wire houses in the brokerage business, as we know them today, and the buying and selling of securities, outside of that done by the professional traders, was handled very largely by the banks. Institutional investors were the largest holders of nationally known securities, but even they preferred to keep most of their funds in local issues and in local real estate. As a matter of fact, the combined assets of life insurance companies at that time were insignificant compared to the vast resources which they command today.

In 1914 this nation as a whole was a debtor nation to the rest of the world. A great deal of the industrial expansion of America, particularly in the railroad field, had been financed abroad, mostly in Great Britain. Labor in this country's mills and factories was still mostly foreign, less than a generation in this country. Distances were great, not only for travel, but for the shipment of goods as well and

most communities were still fairly heavily dependent on local production of many of the commodities and even manufactures that went into their daily lives.

The lesson taught by the nationwide campaigns for the sale of Liberty bonds and the habit which they established opened up the public market for nationally known securities following the war. Of course there were other factors in this development, not the least of which were the great strides made in the technological fields, making possible mass production on a scale previously undreamt of in many industries. At the end of the war, the so-called capital markets were ready to meet the demands for capital for vast new plants needed for the centralized mass production of an accelerated industrial era. Of course, as we all remember, the dislocation caused by these sudden and sweeping changes was so great that we suffered a severe economic collapse in 1920. But, while several years' time was required for the nation to recover, the foundation had been laid for fairly rapid adjustment. That adjustment, unfortunately, progressed beyond the point of sound economic structure. We headed straight from recovery into what may well go down in history as the most spectacular and disastrous economic and financial orgie in the history of the world. The apologists for that era have chosen to explain it as the safety valve of human emotions following upon the tremendous strain of the war. Men at that time, however, believed that we had entered upon the new world which would follow after the war -- the New Era, as they called it.

There is no need here of raking over the dead ashes of that disaster. New ashes of a new disaster are unhappily in the making today. But we can draw a few lessons from the experience of the post-war '20s which may be

helpful to us in the post-war years which are to come. First we can note that we jumped abruptly from a period of almost complete regimentation such as was necessary for a nation fighting a war into a period of almost complete *laisse faire*. All the restrictions, both actual and psychological, were off. There was no period of transition. There was no gradual relaxation. There was no organized program, or even any effort to formulate a program, to make the transition from a wartime economy to a peacetime economy. Everyone was suddenly and completely on his own. There was no thoughtful effort made to assist the economy in the adjustments made necessary by the advancement of technical skills. Technological unemployment went unnoticed, because those who were working and those who were speculating were so well off personally that they didn't bother or think to look around them. Malignant pains which should have been red flags of danger went unnoticed in the wild joy of those extravagant days until their cause pulled the whole system down and nearly extinguished it. Had we been sober enough to feel the pain, we would have searched out its source and brought it under control much earlier -- at least we would have tried. So the first lesson, it seems to me, to be drawn from our experience after the last war is that this time we must take care that our transition shall be more gradual. War is a disease, and we shall have to plan to be under the doctor's care for some time, until we can be sure that we have got our strength back for normal healthy pursuits. We must not again jump out of bed and into the bar-room.

At that, however, following all this struggle and waste, we shall probably be the healthiest nation on earth at the end of this war, or perhaps I should say the least sick. In consequence, we shall have on our hands the tremendously important job of helping the sicker members of the family of nations to their feet. After the last war, we had that job too, but I am afraid we didn't do it very well. In fact, in the light of our announced purposes and ideals, we didn't set a very good example of intelligent and sober recovery. We were fighting that war to preserve democracy and our democratic way of life. But we proceeded, immediately after winning that war, to give such a senseless and grotesque demonstration of democracy in action that other peoples of the world who were looking to us for light could find little to give them hope. It is true that we poured hundred of millions of dollars of private investment capital into the rehabilitation of many of the other nations of the world and of their industry. But it was a reckless, speculative deluge, planned neither for the enduring benefit of those nations themselves nor even for the long range benefit of our own American investors. Unbridled, irresponsible finance was abroad in our land. It became inevitable that neither those nations nor those investors got a fair run for their money. There was, in short, a total lack of a proper sense of responsibility either to ourselves or to the rest of the world.

Today, in war time, as I hardly need tell this gathering, we are becoming the arsenal of democracy. Tomorrow, when peace has come, we shall of necessity become the banker for the world. And in such a position, we shall have an enormous responsibility. It will be the kind of responsibility which it is most difficult to discharge, because it must run side by side with self-interest. That self-interest must not be permitted to predominate, nor yet can it be submerged. We shall have to recognize that to enrich ourselves by picking the pockets of war-stunned nations,

under any guise whatsoever, will serve us poorly over the years to come. The investments which it will be necessary for us to make abroad after all this is over must not only be made for the rehabilitation and resuscitation of other nations, but must be truly investments in the future prosperity and happiness of our own country as well.

At the conclusion of this war, the frontiers of American enterprise will extend to all the world. No nation has ever before stood in such a position. Our goods, our produce and our capital will be essential almost everywhere. We shall be in a position in which we can do very well for ourselves, but we shall remain there only so long as we recognize the grave responsibilities that go with such a position.

Nor is it a position into which we can drift casually and without thought. It must not be a hit-or-miss undertaking. We must know that the capital we are investing has every chance to produce rich dividends in the form of a stabilized world economy. No investment is, of course, fool-proof. But we must plan and proceed intelligently, in the light of the best experience and best judgment that is available to us. We must not, for example, approach the problem as though we were the masters or economic tyrants of the world. We can be neither high-handed nor heavy handed. Either approach would defeat the basic purpose of creating a world in which all peoples can be prosperous and happy in their dealings with one another as well as in their internal relations. Either approach would constitute a flagrant violation of the moral responsibility which will certainly attach to our position. In short, the investment which we must make at that time will be an investment in humanity, in the restoration of conditions of human decency and self-respect. Of course, I recognize that it is very easy to go over-board on the side of emotion and sentimentality in dealing

with this problem - just as easy as permitting ourselves to be dominated by national avarice. We must strive to do neither. The nice old lady approach can, as we all know, be devastating in its ineptitude.

We will naturally want to help finance the restoration of decency to the world, but we shall have to do it in a carefully planned manner. Today we cannot possibly foresee exactly what the specifications of such a program will be. First of all, we do not yet know the exact specifications of the problem, and shall not know this until after the last shot has been fired. We do not know precisely what our own condition will be, or that of the rest of the world. But we can begin to do some fairly accurate estimating of these specifications. We can guess with a fair degree of certainty that Europe and Asia and Africa will be on the verge of complete exhaustion, both in human and in physical terms. We can guess also that the Americas will be severely strained both humanly and physically. But whatever the problem, the task of laying out the program will be ours.

There can, therefore, be no doubt of our responsibility. Furthermore, the discharge of that responsibility will have to be a complete national effort. We shall not be able to let down immediately after *this* war. Agriculture, industry, labor and government will have to stay long in the harness to feed the starving peoples of the world, and to supply them with the raw materials and finished goods essential to their rehabilitation - and with the capital to rebuild their shattered civilizations. And, of equal importance, wartime production levels which we have attained will have to be rapidly converted to peacetime purposes. It will almost certainly be as necessary to mobilize the nation's resources for peace as it has been for war. Plants which have recently been converted and tooled to the production of swords will as rapidly have to be turned back into machines for the making of plowshares.

Here again is a task in finance which will call for restraint and breadth of vision. Many facilities presently employed in our defense effort will be partially or totally unfit for the production of peacetime consumer goods without the expenditure of large sums of money in order to equip them for such pursuits. Much of those necessary funds will, of course, be sought in the public market. The temptation will be great to spend out of reason and beyond necessity in order to avoid unwelcome losses and property write-offs. Enlightened finance will curb these natural instincts and look to the long-term interests of the company, of its existing security holders, and of those whom it invites to participate in what will amount to a new venture. The importance of this restraint will lie in the preservation of a sound, domestic, economic structure. Such a foundation will redound not only to our happiness and prosperity at home, but also to our ability to carry on our tremendous task abroad.

I have said that we shall be the strongest nation on earth, physically. We shall also, potentially, at least, be the strongest moral force on earth. If we employ wisely the power that shall be ours, remembering always that it is a power springing in no small degree from the abject debility of the other nations of the earth, we shall be able to direct the creation of a world of greater dignity than has ever existed before. It will be an opportunity such as no nation has had in modern history. Likewise, it will be a challenge such as no nation ever faced. The objective, of course, must be a world in which men live together in self-respect and mutual respect -- in which there is dignity in every walk of life -- in which humiliation, starvation, and poverty must not exist, because we know that these are the forces which have always created the Hitlers of history. The new world will of course not be a Utopia. But it will come as close to Utopia as a people steeped in the ideals of personal freedom and human dignity can make it.