A Nation of Share Owners

It is a great privilege for me to keynote Invest in America Week, an honor of which I am deeply appreciative, for the objectives which you have established are as impressive as California itself.

California is growing so much faster than the rest of America that I'm almost abashed to appear before you as a representative of a slower moving eastern civilization.

Perhaps the most interesting facet of California's astonishing growth is the number of people who have come here in the past decade. In Los Angeles County alone more than a million men, women and children have moved here from all parts of the United States. I suspect that a great many of those people came here for one overwhelming reason: opportunity. Opportunity to grow up with new industries, the opportunity for elbow room, the opportunity to improve their own living conditions, the opportunity to build a dynamic heritage for their children.

Possibly not so well known is the fact that our industry, the securities business, has kept pace with the development of other segments of the California economy.

The Los Angeles Stock Exchange is today one of the important regional securities exchanges in the nation. Under the excellent leadership of Blondie Paul, it is helping to serve with vision and efficiency the investment needs of an ever growing population.

The New York Stock Exchange also has been privileged to serve the investment demands of California. As far back as 1866 the securities of a California issue were traded on our Exchange. Those were the bonds of the California State War Relief. Southern Pacific Bonds were traded in 1876; Homestake Mining Co. shares in 1879. Today there's not a California industry I can think of which is not represented on the New York Stock Exchange list.

The prices of securities bought and sold in New York appear on 120 tickers in 30 California cities at the same time they appear in New York City. Twenty-five years ago member firms of the New York Stock Exchange had only thirty-one offices in California. Today, I'm proud to say, our firms have five times that representation.

It is highly appropriate therefore that this observance of Invest in America Week should originate in California which is moving forward so fast and where the facilities for investment are so widespread.

Asa Call, General Chairman of the 1952 Invest in America Executive Committee, summed up your aims when he said: "The purpose of Invest in America Week is to make every American aware of the importance of his stake in the economy of our country."

I'd like to discuss with you briefly my own interpretation of Asa Call's words and their implications.

Why have so many important civic and business groups joined in an effort to get across to everybody the basic ideas that make our economy run? Why are so many people working together to drive home the facts about their opportunity to share in the ownership of a productive nation? Why are business and the securities industry so concerned?

Is there something wrong with our business system? Are we trying to cover up some fault or omission, trying to hide our mistakes or dodge our responsibilities? We definitely are not – although when I say that, I'm not trying to imply that capitalism is without fault or that it cannot be improved. But the capitalistic business system in which we live has helped to keep us free men, working together for each other and for ourselves, venturing, expanding, prospering. No other economic system has done so much for so many people.

Why, then, are we throwing all our energies into this task?

It is because we have come to recognize clearly two dangers: Virulent attacks on our way of life from abroad and – what may be even more undermining – apathy and misinformation at home.

We know our foreign friends – and our foreign enemies. We know the communist party line and can nail it cold when it comes up out of the mud long enough to be nailed.

We are all worried about the dangers of foreign isms, but I wonder if we're equally as concerned about our – for lack of a better term – lukewarm friends at home. Some extremists damn profits, talk glibly about a benign paternal state; other extremists damn labor, forgetful of labor's contributions to the building of America; some damn capital, forgetful that without the risk and use of capital the resources of the nation would be an untapped reservoir; or they damn the consumer, forgetful that the unceasing bid for the consumer's favor is a constant source of strength in our economy and a constant spur to progress.

I am reminded of the two missionaries being escorted to a cauldron of boiling water by a group of cannibals. "There's nothing to worry about," one reassured the other who obviously disliked the prospect of being served for dinner. "These fellows mean well. They just don't know any better. It's only that their methods are a little different from ours."

Perhaps that illustrates the complacency with which so many well-meaning Americans look at the dangers which threaten to destroy rights and privileges we take for granted. Is socialism only a "little" different from democracy? Is the Communist to be condoned because he doesn't "know any better?" Possibly – but those are opinions which we may hold in one hand while the other hand is being shackled to tyranny.

"Invest in America" week should go far to reduce the danger of such shackling. That a group of outstanding and responsible citizens and organizations is devoting an entire week to a discussion of America's opportunities is in itself reason enough to make "Invest in America" Week noteworthy. At the very least, such a week should serve to provide a basis of public unity with respect to the worthiness of our capitalistic system – a basis of public unity needed very much in a society where organized pressure groups are coming to wield such unrestrained power.

We weren't handed our liberties on a silver platter one hundred and seventy-six years ago. California wasn't settled by people who crossed the continent in Cadillac caravans or rounded the Cape in cruise ships. Nor is freedom secured today by thinking what fine fellows our ancestors were.

Capitalism will stand or fall in direct ratio to the support it gets from the public. That support will be fully forthcoming only when all the people share in capitalism and all the people know that they do share in capitalism.

That is my conception of Invest in America Week. It is our job first, to line up before the people the facts about the accomplishments of American capitalism, second, to make clear the direct stake every American has in the continued success of that system, and third, to encourage the broader distribution of the benefits of capitalism to all of our people.

It would be gratuitous for me to try to tell you how to do the job you've carved out for yourselves.

I know you will enumerate the accomplishments of American capitalism in terms of the benefits it has provided for the average American. I know you will make clear the particular interest which each property owner, insurance policy holder, and each saver has in safeguarding our economic system.

In this program of yours to line up the facts before the people, the Exchange's most recent contribution to economic education may be timely and useful. It's a new animated cartoon picture, "What Makes Us Tick," produced for us right here in Los Angeles by John Sutherland. We think he did a superb job, and I hope you will all see this picture when it is released next week. It represents the high point thus far of our current program to use every means at our command to get across to all kinds of people the story of capitalism, of industry, and of the Stock Exchange.

It is in connection with the third goal of Invest in America week – that of encouraging the broader distribution of the benefits of capitalism to all our people that I should now like to express some ideas.

Invest in America Week is a reflection of the strong belief that the best way to insure public support for our capitalistic system is to get everyone possible to participate directly in that system – to have a direct ownership interest. The goal of the securities industry is to create a nation of share owning capitalists: to make every man and woman a stock holder in our great corporations – in short, to invest in America.

There is little doubt that there is money available for investment. We all know, for instance, that people's savings are just about at the highest rate on record. But I ran across another figure a short while ago which really astounded me. The figure was a measure of what people bet. Not all the bets, because nobody could figure that out, but simply the money bet at the race track on horse races. One and one-half billion dollars were deposited in the machines at race tracks last year!

I had a little fun translating those billion and a half dollars into common stocks. Here's what I did. There are some 305 common stocks listed on the New York Stock Exchange which have paid a dividend every year for at least 20 and up to 104 years. A booklet published by members and member firms of the Exchange makes a composite of those 305 issues which had these approximate characteristics: The market price is $45; the stock has paid cash dividends for 39 consecutive years, and yields 5.9 per cent, based on current price and dividends paid in the past year. The billion and a half dollars I mentioned could have bought more than 33,000,000 of these composite shares. Only four corporations out of 1075 listed on the New York Stock Exchange have more than that number of shares outstanding – General Motors, Standard Oil of New Jersey, du Pont and American Telephone and Telegraph. In addition to these four, only four other listed companies had assets which totaled 1-1/2 billion of dollars. In other words, the money bet at the race tracks last year represents a potential share ownership greater than the total assets of any but a very few of the nation's corporations.

Or relate that billion and a half dollars to industry's need for new equity capital. It would have supplied two-thirds of all the new money which corporate business firms raised last year by selling new shares.

Now, please don't misunderstand me. Don't think I'm using statistical vagaries to indict the sport of kings. That is certainly not my intention. Fifty million Americans can't be wrong. I just wanted to point out the fact that money is available for investment on a large and broad scale, if only the securities industry can successfully compete for its use. The if is a big one – if people can be persuaded to invest.

To make every possible American a share owner admittedly is a task which will take all our strength and ingenuity. We know the job is a huge one. As a matter of fact, we don't really know how big a job it is within any reasonable margin of error. The national stockholder census now being taken by The Brookings Institution in collaboration with the New York Stock Exchange, other segments of the securities industry, and thousands of corporations and banks, will, I think, bring our job into perspective. We expect the findings to be ready this summer.

It would be naive to assume that we can build a nation of share owners simply by declaring that capitalism must draw on the mass savings of the people if it is to flourish – or that investment is a good way to fight inflation – or that the investor is a better citizen – or that the investor has the opportunity of growing with the country.

We know those statements are true, but they are what might be called by-products of investment. It's a lot more to the point, it seems to me, to encourage the growth of investment on just one ground – self-interest. What's in it for John Jones or Mary Smith? What are you going to get out of owning a share of Paramount Pictures or Union Oil of California, or Pacific Gas? Are you taking a risk when you buy a share of a company? How big a risk? There's not much idealism in that approach but it's a practical one. And I think it's an approach that, handled intelligently, conscientiously and honestly, will do the job.

Why should you own a share of industry? Well, why did your great-grandfather cross a continent a hundred years ago? He was hoping to gain a better life and he risked searching for it.

The incentive to gain is still with us today – I hope it will always be with us because it has been the search for profit, the calculated risk, that has helped to make reality out of dreams. We invest in the hope that our income and capital will increase. We buy a share of stock because we have faith in industry's ability to make a profit and because we want an opportunity to share in that profit.

It is with concern, therefore, that I contemplate much of the loose thinking on the subject of profits.

First, I would like to say that profits are never exact amounts as they appear to be on profit and loss statements, but are accounting estimates, which – under today's circumstances especially – are hard put to reflect true earnings in terms of current depreciated dollars.

But more important than that, profits are not just one lump sum, one indivisible whole to be thought of as a single piece of cake. Actually, all profits, like Gaul of Caesar's day, may be divided into three parts: Part I are profits in name only, since as soon as computed they are claimed as taxes on income by the Federal government. In 1951 such profits paid in federal income taxes totaled almost 27 billion dollars. This part of profits, considered by business men and most practical economists as a part of cost and not really a part of earnings, in 1951 claimed sixty per cent of all gross profits before taxes.

Part II of profits are the retained earnings, totaling $8.6 billion in 1951. These profits are retained in the business. They help make new jobs, provide equipment to make work easier, supply working capital to carry bigger inventories, and enable companies to build new industrial plants when commercial demand warrants or the defense of our country calls. Retained profits have provided for over a third of the 175 billion dollars added to capital by non-financial corporations since 1946. They have been used to expand our industrial base against the threat of communism.

Part III of profits are the amounts the stockholder actually gets in cash – the amounts paid out in dividends, which totaled $9.4 billion in 1951 for all U.S. corporations. In other words, the owners, even before they paid their personal income taxes, received in cash from their property only one fifth of their corporations' gross profits. Another fifth was retained in the business, and three-fifths were paid in cash as income taxes to the senior partner, Uncle Sam. The Federal Government got three times as much of the cash profits as the owners.

In certain quarters, there appears to be a feeling that some or all of these profits, no matter how honestly earned, are somehow antisocial or a form of chicanery. Nothing can be further from the truth. Profits paid by corporations to the Government in taxes constitute the second largest single contribution to running the Federal Government. If gross profits are reduced, then inevitably a heavier burden of supporting the Government is transferred to other shoulders.

Dividends are necessary in order to induce people – big and little – to take the sizable business chances which prevail in our complex society. Such risks are inherent, for example, in the development of new products and methods. To develop nylon, it was necessary to venture $27 million over a period of 13 years before any commercial production was achieved or a penny of profit earned.

When one considers the risks, it is surprising how moderate is the charge for the hire of capital. In a recent nationwide public opinion survey, it was found that the average person thought capital obtained a return on sales of 21 per cent after taxes. In actual fact, it is much less. For example in 1951, a good business year, net profit on sales and after taxes for all manufacturing industries was reported by the Government to be about 5-1/2 per cent.

I'm not trying to establish a cult of profit worship, for profits are only a means to an end. But let's not lose sight of the industrial progress which profits have made possible. Profits have not solved all our problems by a long shot, but they have been the indispensable, irreplaceable incentive which has caused the savers to risk their funds as equity capital. Take away the profits and you destroy capitalism and substitute socialism or communism.

But the opportunity for profit, of itself, is not enough. Another ingredient is necessary. It is the spirit of enterprise, the spirit of venture.

On my way out here, I thought of two men whose paths crossed in California and whose lives represent this essential willingness to venture for profit.

In 1854, Theodore Judah is reported to have told his wife enthusiastically in their Buffalo home, “Anna, I’m going to California to be the pioneer railroad engineer of the Pacific Coast.” He did go to California, and for ten years worked and slaved to see his dreams come true.

The other man was Leland Stanford. On May 10, 1869 – the anniversary of which is just a few days away – Stanford drove the final gold spike signifying the completion of our first trans-continental railroad. This marked the achievement of what had been a paper and pencil project just ten years earlier.

The richness of California’s resources and the opportunity for profit were first exploited by men like these who had dreams -- and guts. They were men who risked their lives looking for a poke of gold or freedom and happiness for themselves and their families. These men were speculators, the risk-takers who are often the prime movers behind accomplishment and progress.

The risk-taker and the venturer were the heroes of America’s westward march. We recognize them in the history books for just what they were: men who speculated in the hope of gain, the men who built America and gave us our tradition of freedom. Today the constructive risk-taker, the venturer, is just as important to our growth and vitality as a nation. But the risk-taker these days is an unsung hero at best. At worst he invites the scorn of people who would rather lie down with a government dole than stand on their own two feet.

There is perhaps today a tendency to mistake opportunity in the old-fashioned venturing sense for the privilege to invest in a triple-A bond. Perhaps this viewpoint is a hangover from the 1930's, when we were told and some believed that we had entered a period of economic maturity, that the best we could hope for as a nation was a sort of innocuous stability.

The search for individual security is not confined, of course, to a handful of sluggards. "Security from the cradle to the grave" is a noble concept – but only if the objective is seen in terms of a citizenry not humbled by an all-powerful state but in terms of men and women who accept the challenge of life, who have the courage to seize the present and shape it with their own strength.

I'm looking for security for myself and my family, and I suspect every person here today is more than a little concerned with his own security. But let's not allow our search to carry us into a bed of feathers which will stifle initiative and smother progress. I believe my best chances for security lie not in the prospects of my social security check at age 65, but rather in my opportunity to compete in a free society and to participate in the new developments created by men of vision who have the incentive to venture and to take a risk.

We in the securities industry of course have a very special interest in security and in risk. We [ ] not because one is desirable to the exclusion of the other, but because one or the other has a particular appeal for a particular person or group.

Speculation is a reasoned attempt at gain. The speculator or risk-taker is primarily interested in the appreciation of his capital. He weighs the risks involved, considers such possibilities as a crop failure, the creation of a new product, unforeseen competition. He tries to balance risk against the possibility of gain and the amount of gain. Let me mention just one example out of the scores afforded by your own State. In 1909 the first western picture was produced in Edendale and a vast new industry was born. The people who invested their money in that early project were certainly risk-takers who were guided at least as much by faith as by fact.

Investment, on the other hand, is concerned mainly with safety of principal and need for income.

Since the purchase of any security – or the purchase of any kind of property for that matter – involves risk, the careful investor uses every tool at his command to protect his funds. Indeed the securities industry with its investment services has built up what is really an industry within an industry for the purpose of providing the investor with information and guidance.

All segments of the securities industry are dedicated to supplying the capital funds required by industry and to providing almost unlimited opportunities for the investing public in accordance with the individual needs of each member of that public. Together we are trying to build a strong industry which will serve the needs of the entire public with vision, integrity, efficiency and economy.

Together we are trying to point out that the man who risks his capital in the hope of a profit or a gain – has always been and still is an important drive wheel in our enterprise system. His importance to our economy as a source of funds for new ventures is so great that existing barriers to his operation should be modified. I have made certain suggestions to the Congress which would help to give such capital the freedom and mobility essential to its most efficient functioning – for example, I have proposed that the holding period for capital gains be shortened from six months to three. I feel sure that the Congress, with patient wisdom, will give due consideration to my proposals.

Together the securities industry is embarked on a program to broaden the base of stock ownership – to create a nation of share owners. We believe that herein lies an unusual opportunity to make our economic participation in America as democratic as is our political participation, an opportunity to build a true people's capitalism. For the investor of today, whether actual or potential, may buy shares in any of hundreds of distinguished corporations with long and honorable business careers, corporations which have paid their share owners dividends without interruption for decades – corporations engaged in producing everything from steam boats to plows. Or the investor may take a larger risk and invest in the new enterprises that may change the face of the earth in years to come. All over this great country of ours are opportunities today to look to the future, to develop better ways of serving the public, to risk one's future welfare and savings on new products and new ventures, just as Judah and Stanford and others did about a century ago here in California.

That is what has made America great – that is what will keep her great – energy, optimism, courage, vision, risk-taking, profits, progress – that is why we should all invest in America.