

August 11, 1947.

Memorandum re:

British Financial Policy and Regulations
Affecting Private American Investment
in British Industry and Sterling Shares.

While there may be little that technicians in the field of private finance may do with respect to the views of the Bank of England in regard to listing British securities on the New York Stock Exchange, I must tell you that I was somewhat taken back by the informal comments which you were good enough to pass on to us and also by the reaction of the brokers and jobbers you spoke to on this question. The Bank of England's fundamental concern seems much the same as expressed to me by the Bank and the British Treasury people with whom I discussed the matter in London early in 1946. At that time one of the important policies of these officials was to endeavor to insulate British finance and economy from the effect of any stock market fall or depression in this country. While I appreciate that some hold the view that such an insulation is practical, it seems to me that the experience of the past years has indicated that the economies of the nations of the world cannot be disassociated one from another, however hard one might try. While we may be far from the "one world" idea, I think that economic isolationism has proven a failure in the past.

There are many reasons which I can see why the American public might hesitate to invest in British securities today, including the great publicity given here to the difficulties of present economic conditions in England. On the other hand, as one of many Americans who admire your country and believe that its stability and future prosperity are linked with our own, it is hard for me to understand the reasons behind your officials' coolness to American private investment, either in the form of direct investment of United States capital and know-how in un-nationalized British industries, or through the investment by our public of dollars on a partnership basis in some of the outstanding ordinary share issues in your market. Why should not the investment of private American capital be encouraged under such safeguards as your authorities feel necessary, even more than dollar capital from United States governmental sources? It seems to me that a cross investment, represented on one side by the existing, though reduced, investments of your nationals in United States industry (which were so helpful to the development of this country), and similar investment by our nationals in the shares of your leading enterprises, would be welcomed as contributing to closer solidarity and financial ties between the two countries.

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Apparently some of your countrymen, thinking in terms of 1928 and 1929, look upon American investment in sterling securities as "speculative buying." When you consider the tens of millions of individual stockholders in this country and the customarily long-term character of our investment markets today, it seems to me that perhaps your officials and business men are not getting a true and complete picture of the characteristics of American mass investment and the potentialities of this private capital to contribute to the solution of Britain's financial difficulties.

The characteristics of the New York securities markets are quite different from 1929. As an example, the statistics of the New York Stock Exchange reflect the investment character of the market. At present, there are 1,850,000,000 shares listed here as against about 600,000,000 twenty years ago, an increase of over 300%. Nevertheless, during the last ten years the rate of turnover has averaged less than 300,000,000 shares per annum - as compared to over 1,000,000,000 shares annually in 1928 and 1929. Even in 1946, total stock sales amounted to only approximately 400,000,000. This represents an average turnover of less than one share in every four and one-half years and is some indication of the long-term basis of holdings of most American stockholders and the absence of excessive speculation.

It is true that at times in the past American buying of sterling securities has not been of an investment character and has been characterized, as we noticed in late 1945 and early 1946, by apparently uninformed heavy purchases of low grade issues. But this type of buying was concentrated in highly speculative shares not listed on the New York Stock Exchange. I am sure that it is not the same type of American buying that could be expected in the better grade common stock issues of leading British and international companies if they were fully listed on the New York Stock Exchange with complete information as to their financial operations readily available to American investors. Now that the broad disclosure principles of the new British Companies Act are being observed in the reports to shareholders of your leading concerns, investment information is available and listing on the Exchange would make it available to the American investing public. It is understandable that British officialdom does not like to see British securities selling in this market at a price in dollars that would highlight a discount from the official sterling rate of exchange. But this situation exists already and now all the disadvantages of this indicated spread are present, but there are no offsetting advantages to Britain from increasing the flow of dollar capital to the United Kingdom when most needed.

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As you know, Canada has dealt with a comparable situation in a manner which results in the quotation of Canadian stocks in the United States market being established at the value of the free Canadian dollar. The official rate of exchange is not generally applicable to either the investment of new dollar capital in Canada or the withdrawal of dollar capital. While there may have been some disadvantage to this arrangement from the Canadian point of view, I believe that, on balance, it has proven desirable and satisfactory to Canadian authorities. Certainly it has contributed to a flow of United States dollars into Canadian industry, as evidenced from the preliminary results of a study we are making of the shareholdings of the 14 leading Canadian companies listed on this Exchange. This study indicates that both the number of individuals and the total amount of United States nationals' holdings of the share issues of these companies listed on this Exchange have shown a continuing overall increase in recent years. Thus, Canada has gained dollars on an investment partnership basis which would appear a more desirable basis than that of inter-governmental or other short-term loans.

Of course, it may not be in the best interests of all concerned for the New York Stock Exchange to revise its requirements to permit the listing of British securities notwithstanding British regulations which would block the sterling resulting from resales of the new dollar investments in such securities. What seems to me most discouraging is that your authorities apparently do not desire to encourage the investment of American private capital in British securities under any conditions - either on the basis of the official rate with free convertibility or on the basis of non-convertibility. To me it is this apparent absence of any alternative that is most disheartening, because to me it indicates a hesitancy for constructive, forward thinking in this field.

Does it not seem a paradox to you that British authorities should be doing all possible to gain dollars by reducing imports, expanding exports and long-term borrowing, but at the same time discouraging the dollargain which would result from the long-term investment of American private capital in sterling securities?

John Haskell.