DICKINSON LECTURES
Harvard Business School

Wanted – More Shareowners
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Lecture I – April 20, 1954

You won't find the ad in the "Help Wanted" columns of your local paper nor will the job recruiters lurking in the halls here at the Business School mention it to you, but American industry has a special "Help Wanted" sign out today. The ad, if printed, might read as follows:

"Wanted – New Owners to join in growing enterprises. High pay. Good prospects. Only those with surplus savings should apply."

American business today needs new partners – men and women willing to advance a portion of their savings to provide industry with the equity capital it must have in the years ahead, to create jobs for those added each year to our working force, to produce new and improved products devised by industrial research, and to continue to raise the living standard of our growing population.

Why is this "Help Wanted" sign in the window today? Why does industry need new equity capital and where can it hope to find it?

In these Dickinson lectures I intend to discuss these questions and to suggest possible answers.

As the nation's principal market place for the securities of publicly-owned corporations, the New York Stock Exchange has a deep concern with the entire problem of the flow of equity capital to business. This concern is not limited to those great national corporations whose securities are traded on our Exchange. The needs of our 1100 listed corporations are important, of course, but our members, serving as securities underwriters, also aid in financing the growth of thousands of smaller businesses. As brokers and dealers, they provide markets for the ownership shares of corporations which have not as yet reached national stature. And as an Exchange we seek our future listings among today's smaller growing enterprises.

Equity capital, the ownership capital provided by common and preferred stock, is the foundation upon which our entire corporate financial structure rests. And the size and permanence of the national economic structure we are building will be determined by the dimensions and strength of that foundation. The degree of expansion we can finance and the amount of debt we can safely add to our corporate structure depend directly on our equity capital base. How strong is this foundation, this base, that we have been creating in recent years? Is it strong enough to support the kind of house we must have to meet the needs of our growing national family?

Since the close of World War II we have been engaged in one of the greatest expansions of our productive capacity in history. In the postwar years new long-term corporate funds, including depreciation allowances and bank loans, have totalled over two hundred billion dollars. Almost $150 billion of these funds have been poured into new plant and equipment. This huge figure amounts to $3,000 for every family in the country and has resulted in an increase in our productive capacity of more than 50 per cent in less than a decade.[(1)]

Yet in those postwar years stock financing has contributed a scant 7 per cent of these new corporate funds. For every dollar raised by new stock issues industry has gone into debt more than $3 and supplied more than $9 from retained earnings and depreciation reserves.

Table I

Sources and Uses of Corporate Funds, 1946 – 1953[1]

(billions of dollars)

	1946-1950	Per Cent Distri-bution	1951-1953[2]	Per Cent Distri-bution	1946-1953[2]	Per Cent Distri-bution
Uses:						
Plant and Equipment	$ 81.6	56%	$ 68.1	67%	$149.7	60%
Other [3]	64.7	44	34.1	33	98.8	40
Total Uses	$146.3	100%	$102.2	100%	$248.5	100%
Sources:						
Retained Profits [4]	53.0	46	28.8	32	81.8	40
Depreciation	30.9	27	30.5	34	61.4	30
Total Internal Sources	$ 83.9	73%	$ 59.3	66%	$143.2	70%
Bonds	14.1	13	13.7	15	27.8	14
Mortgage Loans	3.7	3	2.4	3	6.1	3
Bank Loans [5]	5.6	5	6.4	7	12.0	6
Total Debt	$ 23.4	21%	$ 22.5	25%	$ 45.9	23%
Stocks	7.2	6	8.1	9	15.3	7
Total Long Term Funds	$114.5	100%	$ 89.9	100%	$204.4	100%
Current Liabilities[6]	30.5		14.2		44.7	
Total Sources	$145.0		$104.1		$249.1	
Discrepancy (Uses less sources)	1.3		-1.9		-0.6	

(1) Excluding banks and insurance companies.
(2) Preliminary data for 1953.
(3) Includes inventories: receivables; cash; deposits and U.S. Government securities; and other assets.
(4) Including depletion.
(5) Including bank loans maturing in less than one year.
(6) Trade payables (including U.S. Government and other), Federal income tax liabilities, and other current liabilities.

Source: Office of Business Economics, U.S. Department of Commerce, Survey of Current Business, April 1954, p. 15.

Dangers of Debt Financing

Why should we be concerned with this slight use of outside equity capital as compared with debt financing and retention of earnings?

The danger in heavy reliance on debt financing is, of course, the possibility of using it to excess. Professor Sumner Slichter of Harvard University sounded a warning on this score in October, 1952. I think that his words are of even greater import today. He warned:

> "The annual repayments on the present volume of private indebtedness have become large enough so that it will be difficult to offset them in a period of moderate or even mild recession. Consequently, the time has come to discourage vigorously any further increase in net private indebtedness – not indefinitely but for at least several years, until the country has had time to grow up to its present debts."(2)

Yet this pattern of heavy debt financing has largely continued. What about the other prime source of new funds in the postwar period – retained earnings? They are, of course, a form of new equity capital, but supplied from within the corporation. Can we, and should we, continue to rely so heavily on them as a source of new corporate funds?

American business does not have today the accumulation of retained earnings which it had immediately following World War II, during which expansion of civilian production had been necessarily curtailed. Nor does it have the certainty of ample profits created by the pent-up consumer demand of the immediate postwar period. Furthermore, corporate management has an obligation to the owners of the business to pay out a reasonable amount of earnings as compensation for the use of their capital. American corporations which in 1939 paid out 75 per cent of their earnings in dividends are now paying out less than 50 per cent.(3) To rely too heavily on retention of earnings as a source of new corporate funds is to discriminate against the very owners of the enterprise.

The mere fact that earnings are subject to fluctuation makes it imperative that we lessen, if possible, our reliance on them as the single major source of new equity capital. The very fact that in the postwar years the use of retained earnings alone has exceeded new stock issues by a 5 to 1 ratio means that a drop of but 20 per cent in total earnings available for retention would necessitate a doubling of new stock financing to maintain the same ratio of equity to debt financing.

And yet what has been our recent experience? In the immediate postwar years – 1946-1950 – retained earnings, excluding depreciation allowances, supplied 46 per cent of the new corporate funds. (See Table I.) The increased demand for new funds in the years since 1950, however, reduced the percentage contributed by retained earnings to 32 per cent of new corporate funds, a drop of almost one-third in their importance when compared to the prior period.

The increased demand since 1950 for new funds, which could no longer be met from retained earnings, of course, resulted in greater reliance on outside financing. Yet despite the fact that the bulk of this increase in outside financing should have been in the form of new stock issues to compensate for the decreasing emphasis on retained earnings, we find that debt has been added at virtually the same ratio over the past 3 years as in the prior period – its use still exceeding the use of stock financing by almost 3 to 1. The net effect of this fact, of course, has been a marked increase in the percentage of new corporate funds arising from debt financing in the last 3 years as opposed to the preceding 5.

Future Needs for Funds

But this is all in the past. Why should we concern ourselves with it now? Haven't we about seen the end of this great postwar wave of expansion?

I think the answer to that is pretty clearly a resounding “no”. Over the long run, American business will have to maintain its rate of capital expenditure at, or even above, today’s level if it is to meet the needs of our growing population, continue to improve our standard of living and insure our continued position as leader of the free world.

The fact is that, despite our record dollar investment in plant and equipment in the past 8 years, the country is not over-built today. Roughly two dollars out of every three we have spent have gone to replace outmoded plant and equipment.(4) Our record rate of capital formation in recent years has merely made up for the abnormally low rate during the depression and the second World War. In this connection it is interesting to note that, despite present uncertainties, corporate management in the first quarter of 1954 continued to invest in new plant and equipment at a rate close to the 1953 level.(5)

Here are some of the reasons why expenditures for new plant and equipment will need to continue at a high rate:

First, it will be necessary to replace existing plant and equipment as it wears out or becomes obsolete because of technological advance. Such replacement will continue to comprise the bulk of our capital expenditure. In 1953 American corporations made allowance for 12 billion dollars in depreciation of existing plant and equipment.(6) However, the actual cost of replacing such facilities today will generally far exceed their original cost. To the extent that the allowances fall short of replacement cost they must be augmented by new capital.

Secondly, capital expenditure must be continued to create the new jobs needed each year to employ those persons added to our working force. On the average in the last decade our labor force was increased by about 700,000 persons a year.(7) The capital investment needed just to create jobs for these workers represents a demand for from $6 to $8 billion a year.(8)

And today American industry is spending more than $1 billion each year on research.[9] Think of the billions in plant and equipment which will be needed to put into production the new and improved products devised by this research.

Finally, our population is now expanding at a record rate. Further billions of investment capital will be needed to supply this growing population with the goods and services it will require.

These and other facts point unmistakably to the long run necessity of maintaining and even increasing present levels of business expenditure. This necessity, coupled with the uncertainty of retained earnings as the single major source of new equity capital and the inadvisability of excessive use of debt financing, compels one to conclude that for the long run health of our economy it is essential that the flow of outside equity capital to American business be substantially increased.

If corporate industry is to continue to be supplied with the $25 or $30 billion a year in new funds which it appears it will need, I believe that the flow of outside equity capital should be almost trebled so that instead of the postwar average of $2 billion a year we will have a flow of equity capital to industry of $5 or $6 billion a year. Every dollar of additional debt in the future should, I believe, be matched by a dollar of new outside equity capital. Let us set for a goal such a balance between new stock financing and new debt financing. Let us reduce this unfavorable ratio of $3 of debt to every $1 of equity financing to equilibrium. Such a flow will assure our sound economic growth by keeping corporate debt in proper ratio with ownership capital.

To determine the possibilities of reaching this goal we must examine our sources of equity capital and those factors which have materially affected the supply of such funds in recent years. Only by knowing these things can we discover the problems involved in increasing the flow to the desired level.

Basically, of course, the source of all investment is the savings of our people. During the past quarter century we have witnessed some remarkable changes in both the distribution of personal savings and in the ways in which these savings are employed.

Distribution of Savings

We have seen a great expansion in the number of savers as a result of the improvement in real wages which the great mass of our people have enjoyed.

In grandfather's time the bulk of our savings was in the hands of relatively few who were accustomed to putting a substantial percentage of their savings into risk investments such as corporate stock.

Today our circle of savers has broadened tremendously and most of our present savers know little about the investment opportunity afforded by common stock.

This ever-broadening financial betterment has given millions of families the opportunity to provide for their own future through savings and has altered our entire social concept of old age. No longer must our aged look to their own families alone for support. Today millions of Americans are able to set aside a portion of the compensation from today's labor to meet the eventualities of tomorrow. And, indeed, much of this provision for the future has become involuntary, what we might call "forced savings", through such savings devices as pension plans, group insurance and social security. What have these changes meant to the pattern of investment of our personal savings? In what form do these savings now flow back into the productive stream?

Pattern of Savings

In 1953 for every dollar of savings used by individuals to purchase corporate stock directly $20 of savings flowed into such financial institutions as banks and savings and loan associations, private life insurance companies, pension funds and investment companies.

(text continued on next page)

Table II

Saving by Individuals in the United States

(in billions of dollars)

Type of Saving	1952	1953
Through Financial Intermediaries		
Banks and Savings and Loan Associations	$ 9.0	$ 7.5
Private Insurance Companies	4.9	5.1
Investment Companies[1]	0.5	0.4
Pension Funds	1.2	1.1
Sub-Total	$15.6	$14.1
Individual Net Purchases of Corporate Stock[2]	1.3	0.7
Other Corporate Securities[3]	0.7	1.2
Government[4]	4.9	6.3
Other[5]	-8.7	-8.7
Total Liquid Savings	$13.7	$13.6

(1) Net purchases of investment company shares by individuals in 1953 estimated by the New York Stock Exchange.
(2) Excludes individuals' net purchases of investment company shares and NYSE estimate of stock purchases by pension funds which are included under "Financial Intermediaries".
(3) Excludes pension fund acquisitions of corporate bonds included under "Financial Intermediaries".
(4) Includes government insurance, U.S. Savings Bonds, and U.S. government and state and local bonds.
(5) Includes currency, liquidation of mortgage debt, and debt not elsewhere classified.

Source: Securities & Exchange Commission, Volume and Composition of Individuals' Savings in 1953, Release No. 1227.

What percentage of this heavy inflow of funds have these institutions been able and willing to invest in stock?

Institutional Holdings of Corporate Stock

Life insurance companies and mutual savings banks have, of course, been under legal restriction preventing investment of any substantial percentage of their assets in stock. Furthermore, because they can meet their obligations to policyholders and depositors with a fixed number of dollars they have been interested primarily in the safety of principal afforded by debt securities.

In the past decade total assets of life insurance companies have grown by $40 billion – from $38 billion to over $78 billion. Their total holdings of corporate stock are now $2.6 billion and represent but 3.3 per cent of their total assets. Net purchases of stock in 1953 are estimated to have been $200 million.

The total assets of mutual savings banks have also doubled in the past decade, increasing from $13 billion to $27 billion. Their equity holdings are but $440 million and represent only 1 ½ per cent of their total assets. Net purchases of stock in 1953 are estimated to have been $110 million.

Life insurance companies and mutual savings banks, along with other institutions, have found themselves hard pressed to find suitable debt investments for the constant flow of savings channeled to them. Had it not been for the large supply of government securities in the past 20 years, this problem might have proved to be almost insoluble. Even with government securities increasingly available to relieve this pressure, we find that in the post-war period institutions have absorbed more than 75 per cent of the annual increase in corporate debt compared to 50 per cent in the early 1920’s.(10)

As these financial institutions have absorbed a growing percentage of the available corporate debt the pressure to invest a portion of their funds in high-grade corporate stocks has increased. Apparently, however, this pressure has not as yet become acute. For example, New York life insurance companies now hold less than 20 per cent of the amount of common stock permitted under the 1951 liberalization in the State Insurance Law.(11)

Private trusteed pension funds and investment companies are two other types of financial institutions which have experienced a rapid growth in recent years but which, in contrast with life insurance companies and mutual savings banks, have chosen to invest a substantial percentage of their assets in equity securities.

Private trusteed pension funds not administered by life insurance companies have grown at a rapid rate in the last decade. Their total assets have increased from $1.5 billion to $10.6 billion. They now hold $2 billion, or 19 per cent of their assets, in corporate stock. Net purchases of stock in 1953 are estimated to have been around $400 million. Although the obligations of these pension funds are technically in dollars alone, there has been an awareness that a substantial decline in the purchasing power of the dollar would result in agitation for increased pensions. This awareness has contributed to their greater equity investment.

Investment companies, sparked mostly by the open-end mutual funds, have increased their total assets from $1.6 billion in 1943 to $5.5 billion today. They now hold close to $5 billion in corporate stock, accounting for almost 90 per cent of their assets. Net purchases of stock in 1953 are estimated to have been around $350 million.

Preliminary – not for publication

Table III

Assets and Equity Holdings of Selected Institutional Investors

	Total Assets (year-end) 1943	Total Assets (year-end) 1953	Equity Holdings (year-end) 1953	1953 Equity Holdings as a Percentage of Total Assets	Activity during 1953: Incr. in Equity Holdings(1)	Activity during 1953: Estimated Net Equity Purchases
	(billions of dollars)				(millions of dollars)	
Life Insurance Companies	$37.8	$78.6	$2.6	3.3%	$155	$200e
Mutual Savings Banks	13.1	27.1	0.4e	1.6e	100e	110e
Private Trusteed Pension Funds (est.)	1.5	10.6	2.0	18.9	300	400
Investment Companies (est.)	1.6	5.5	4.9	89.3	145	350
Total	$54.0	$121.8	$9.9	8.1%	$700e	$1060e

est. (e) – Preliminary estimates of the New York Stock Exchange.

(1) Includes changes in market value of existing holdings as well as net purchases.

Sources: Detailed sources will be shown on final table.

Despite the fact that the equity holdings and purchases of these institutions as a group are dwarfed by the amount of debt capital which they supply to our economy, their present holdings of $10 billion in corporate stock make them important holders of equity securities. We may be assured that their significance will increase in the years to come.

It is equally apparent, however, that these institutions can supply only a fraction of the $5 or $6 billion a year in new equity capital which our economy needs. I estimate that we can count on them to supply not more than a billion and a half of our needs at most.

The types of financial institutions which I have discussed above, namely those which receive current savings from millions of Americans and channel them each year into the investment stream, will be, I believe, of greater long-run significance to our equity capital markets than those financial institutions which are charged mainly with the management of existing portfolios. These latter would include colleges, foundations and other charitable institutions holding $5.4 billion in corporate stock, fire, marine and casualty insurance companies, with $4.7 billion, and banks as trustees of personal trusts, holding $25 billion in stock of publicly-owned corporations.(12) Since a high percentage of the total assets of these institutions is already invested in equity securities we cannot look for any substantial amount of additional stock investment from their existing portfolios. They are not institutions which receive substantial amounts of current savings so that we cannot expect their future percentage growth to be as rapid as that of those institutions I have already discussed.

The marked increase in the flow of current savings to financial institutions, coupled with their relatively modest investment of these funds in equity securities, has been a major factor in reducing the supply of equity capital available to industry. What other factors have been at work to reduce the available supply? What, for example, do we know about the holdings of corporate stock by individuals in recent years?

Individual Holdings of Corporate Stock

Individuals hold directly the 75 per cent of the corporate stock of publicly-owned corporations which is not in the hands of financial institutions. These individual holdings constitute $140 billion of the $185 billion outstanding.(13)

In an attempt to discover just who these individual shareowners were, the New York Stock Exchange in 1952 commissioned the Brookings Institution to make a study of shareownership of publicly-owned corporations. This study estimated that we then had 6 ½ million individual shareowners of publicly-owned corporations. Add to that figure the increase since that time and the owners of private corporations and we get a present total of around 3 ½ million shareowners. This is a sizable number but it is not large enough.

The Brookings Study revealed that these owners were, for the most part, people of moderate means. One out of every 3 shareholders has an income below $5,000 and three out of four have incomes below $10,000.

Table IV
Individual Shareowners of Publicly Owned Stock Distributed by Incomes Reported for Their Families as Units

Reported Combined Family Income[a]	Individual Shareowners: Estimated Number	Individual Shareowners: Per Cent of Total
Members of families reporting incomes of:		
Less than $ 2,000	280,000	4.3%
$ 2,000 to $ 3,000	350,000	5.4
$ 3,000 to $ 4,000	590,000	9.1
$ 4,000 to $ 5,000	830,000	12.8
Sub-Total	2,050,000	31.6%
$ 5,000 to $10,000	2,880,000	44.4
$10,000 and over	1,560,000	24.0
Total Individuals	6,490,000	100.0%

a) Based on anticipated 1952 income before taxes, as reported by a representative family member, usually the head.

Source: Brookings Institution, Share Ownership in the United States, Washington, D.C., 1952, page 97.

The present importance of these stockholders in the middle and lower income groups has never been more graphically illustrated than it was by the survey of the stockholders of United States Steel Corporation, the results of which were released just last month.[(14)] U.S. Steel has more than 280,000 shareholders whose combined investment supplies jobs for more than 300,000 employees. The Corporation's survey indicated that 53 per cent of the stock held by individuals was owned by persons with incomes below $10,000 and that persons with incomes under $5,000 owned more U.S. Steel stock than those with incomes exceeding $25,000.

While we have no historical data with which to compare these figures I am sure that as recently as 35 years ago, around 1920, the stockholdings of the then comparable income group, say $5,000, were negligible. Undoubtedly, we have already made giant strides in broadening the base of corporate ownership among the middle and lower income groups.

The decline in the relative importance of the upper income and wealth group has been accelerated in recent years by three factors. First, their overall capacity to invest in equity securities has been substantially reduced by taxes. Second, their willingness to invest even their discretionary funds in stock has been removed by taxation which has destroyed, to a large degree, their financial incentive to invest in equities. And third, the magnitude of the need for new equity capital has far outstripped their resources.

A generation ago member firms of the Stock Exchange dealt almost exclusively with well-to-do persons. It may surprise some to learn that today individual investors with incomes under $10,000 are as important to our Exchange activity as those in the $10,000 to $25,000 bracket and those with incomes above $25,000.

Table V

Percentage Distribution of Shares Purchased and Sold for Public Individuals, By Income Groups

Estimated Income	September 1952[1]	March 1953[2]
Under $5,000	6.7%	6.4%
$ 5,000-$10,000	19.6	19.7
Sub-Total	26.3%	26.1%
$10,000-$25,000	23.4	25.8
Over $25,000	25.3	23.7
No Indication	25.0	24.4
All Income Groups	100.0%	100.0%

Source: (1) New York Stock Exchange, Summary Report on Public Transaction Study, New York, October, 1952, Summary Table V, (September 10 and 17);

(2) New York Stock Exchange, 1953 Public Transaction Study, New York, 1953, Table 7, p. 12 (March 18 and 25).

Capacity of Wealthy to Invest

There is certainly little dispute with the statement that taxation has substantially impaired the capacity to invest of those wealthy individuals who historically supplied much of our equity capital. High rates of income and estate taxation have materially depleted their resources available for investment.

Of course, the problem of the amount of equity capital available from upper income individuals depends on much more than their remaining capacity to invest. It depends as well on their willingness to invest in equity securities.

Here again is an area where taxes have left their mark. High personal income taxes, by reducing the after-tax yield from equities below the point justified by the risks involved, have lessened the attractiveness of equities for persons in very high income tax brackets. The tax exemption granted to income from state and municipal bonds has greatly increased their relative attractiveness for high-bracket taxpayers. This condition has been further aggravated by double taxation of dividends which has reduced even further the amount of corporate earnings which reach the pocketbook of the company's owners.

In addition, the capital gains tax has decreased the investor's incentive to venture and has kept our securities markets from making their maximum contribution to the flow of capital to industry.

The capital gains tax has distorted the value of securities by discouraging the realization of gains and encouraging the realization of losses.

This tax impairs the liquidity of the securities markets by freezing present investors into existing investments and by discouraging new risk taking. This thinness of the market in issues which have appreciated materially, caused by the reluctance of owners to sell these issues and incur a tax, was vividly illustrated recently by a study of ten prominent stocks listed on the Exchange. The owners of these issues had a minimum unrealized appreciation of over $8 billion since 1949 alone, and as a result of their reluctance to realize this gain the trading in these issues on the Exchange has dwindled to a turnover of less than 5 per cent of the outstanding stock a year.(15)

The capital gains tax has effectively locked these investors and many others into their present holdings and prevents them from switching to other and often more venturesome issues, even though this unrealized appreciation may represent nothing more than an illusory gain caused by the decline in the value of the dollar.

The effect of all these forces on our securities markets has been striking. The annual volume of trading on the New York Stock Exchange has descended to an historic low of 12 per cent of the shares listed.(16)

A study made last fall revealed that 62 per cent of the common stocks traded on the Exchange were then selling at prices below their book value.(17) With a substantial majority of listed commons selling below their book value and with historically high dividend yields available on many seasoned equities it is evident that the effect of taxation in contracting the demand for equity securities has made itself felt in the market place.

Mass Investment

If we must look to individuals to supply close to $4 billion in new equity capital each year we must look beyond the tax-devastated resources of the wealthy. We must look to the mass savings of millions of Americans for mass investment. We must tap the potential of the middle and lower income groups which we have seen have already emerged as important owners of corporate stock.

The potential of these groups is equal to the task ahead. We estimate that, in all, there are perhaps as many as 21 million families in this country who potentially are financially able to own corporate stock. Take as an illustration of the available potential the income bracket from $5,000 to $10,000. Here we already have one of our largest shareowning groups -- 44 per cent of all families with stock are in this category. And yet for every one of these 2 million families who own stock there are 4 families in the same income group which do not. Eight million families in the country with incomes between five and ten thousand dollars do not own stock. And even more surprising, 45 per cent – almost half – of the families with incomes above $10,000 a year do not own any stock in publicly-owned corporations. In these groups alone there is a tremendous potential for increasing the flow of equity capital to industry – a potential of millions of American families financially able to own common stock.

Table VI
Family Units Holding Publicly Owned Stocks Distributed by Combined Family Income

Reported Combined Family Income[a]	Total Family Population	Shareowning Family Units: Per Cent of Group Population	Shareowning Family Units: Estimated Number	Shareowning Family Units: Per Cent of Total
Less than $ 2,000	9,910,000	2.2%	220,000	4.6%
$ 2,000 to $ 3,000	8,560,000	3.6	310,000	6.5
$ 3,000 to $ 4,000	10,990,000	4.6	510,000	10.7
$ 4,000 to $ 5,000	8,210,000	7.4	610,000	12.9
Sub-Total	37,670,000	4.4%	1,650,000	34.7%
$ 5,000 to $10,000	10,480,000	19.8	2,080,000	43.8
$10,000 and over	1,850,000	55.1	1,020,000	21.5
Total Families	50,000,000	9.5%	4,750,000	100.0%

a) Based on anticipated 1952 income before taxes as reported by a representative family member, usually the head.

Source: Brookings Institution, Share Ownership in the United States, Washington, D.C., 1952, page 95.

But how, you will ask, can purchases by such individuals increase the flow of new capital to industry? Won't these new investors concentrate their purchases in "blue chip" stocks rather than purchase new issues?

To a great extent the new investors we are seeking will, and should, purchase investment-type stocks of established companies, but this does not mean that their purchases will not increase the equity money available for new issues. As their money flows into seasoned stocks it will tend to encourage the management of those companies to issue new common stock. In addition, those holders who are able to assume greater risks will be encouraged to move out of these issues and into less seasoned stocks – stocks offering a higher dividend yield and more rapid appreciation possibilities with correspondingly greater risk. This has been the traditional pattern of American finance. Those investors who can assume the risk of new ventures have been encouraged to move out of more mature issues and into risk situations by the prospect of greater financial gain. This financial incentive is essential to the free flow of capital and to the future well-being of our economy.

It is this flow of funds in a free market which the capital gains tax has impeded. It is for that reason that the Exchange has urged reduction in both the rate and holding period of the capital gains tax so as to free our equity markets to play their full role in supplying industry with funds.

The task of increasing the flow of equity capital by encouraging stock investment by millions of financially able Americans is the challenging opportunity which lies before the securities industry today. How our industry plans to meet this challenge is one of the topics I shall discuss tomorrow. I would also like to investigate with you what some of the risks involved appear to be and what benefits can flow from a program to broaden the base of corporate ownership among millions of Americans.

I am afraid I have tried to cover a lot of ground this afternoon. Basically what I have tried to say is this –

Our future needs for new corporate funds will continue and probably even exceed our present high level of demand. We cannot, and must not, continue to rely so heavily on debt financing and retained earnings to supply such a large percentage of these new funds. We must decrease our reliance on these sources by increasing the flow of outside equity capital to industry – perhaps to a level of $5 or $6 billion a year.

While institutional investment in corporate stock is and will continue to be significant, it can supply only a portion of this needed amount. Nor can the tax-devastated resources of the wealthy bridge the gap. We must therefore rely on the mass savings of millions of Americans to supply a substantial portion of our equity capital needs.

<u>Wanted – More Shareowners</u>

Lecture II – April 21, 1954

In yesterday's lecture I outlined the need for increasing the flow of equity capital to industry and the importance of utilizing every available source of such funds in order to raise some $5 or $6 billion of new outside equity money each year for the future healthy and dynamic growth of our economy. I pointed out that the only hope to raise this vast sum was to broaden the base of corporate ownership, to tap the savings resources of millions more American families.

I indicated some of the factors which contrive to reduce the supply of and demand for equity capital. It is, and will continue to be, the aim of the Exchange to seek the removal of these obstacles – many of which are in the tax field. A reduction in the capital gains rate, for example, would encourage investors to sell established securities which have appreciated greatly in price and to reinvest in more venturesome stocks. A reduction in the capital gains holding period would also induce new investors to assume the risks of new ventures. A lessening in the extent of the double taxation of dividends would improve the investment attraction of common stocks. Any one of these changes would encourage non-owners to purchase their first equity securities.

An ancillary benefit of such changes would be that the professional and semi-professional speculator might assume a larger share of the burden of maintaining a liquid market than he does at present. Recent figures indicate that only 15 per cent of the Stock Exchange volume may be considered speculative in nature – that is, the result of activity of those who are trying to make money through short term changes in [ ]. While they act individually, of course, in their own self interest and in the hope of profit, the speculators collectively provide a real service to the general public. Their willingness to buy or sell stock at a price close to the last recorded sale helps create for the investor a liquid and broad market for the immediate sale or purchase of securities at a favorable price.

But the mills of the gods churn slowly and changes in our tax laws must await the pleasure of our Congress. We can propose but only Congress can dispose. Meanwhile, the securities industry has the task of almost tripling the flow of equity capital, from about $2 billion to $5 or $6 billion per year.

This afternoon I would like to discuss what our industry can do, in spite of handicaps, to encourage equity investment by institutions, by existing shareowners and, most particularly, by new investors.

Function of the New York Stock Exchange

I have been asked on occasions why the New York Stock Exchange is taking the lead in the campaign to increase the flow of equity capital and broaden the base of corporate ownership. “Why,” I am asked, “does the Exchange not confine itself to its primary function of providing a securities market place?”

I believe that the function of the Exchange is broader than the mere custodial and housekeeping task of providing a market place. In addition it is part of the Exchange’s function to maintain a healthy market. And a healthy market is, by definition, a liquid market. Liquidity is, in essence, the presence in the market at any given time of enough bids to buy and offers to sell so that the price fluctuation between transactions is kept to a minimum. Any factors which threaten to reduce this liquidity materially must therefore be of concern to those charged with the preservation of that market.

I do not believe for a moment that we would be fulfilling our proper function were we to sit by and not concern ourselves with those factors which materially affect the supply and demand for the commodity in which we primarily trade, namely, equity securities.

To maintain its market properly today the Exchange must concern itself with such broad matters as the effects of taxation on investment, the level of economic education among potential investors, and the preservation of our economic freedoms, to mention but a few.

Now this is no revolutionary doctrine. The New York Stock Exchange has always been responsive to the needs and exigencies of contemporary life. The Exchange was founded 162 years ago under the famous buttonwood tree to provide a market for the original stock of the United States Bank and for bond issues which funded the debt arising from the Revolutionary War. When the national debt was paid off in 1835 there was some question as to whether or not the Exchange was obsolete. To maintain the market new listings were then sought, with the result that today a single day's trading exceeds the volume of the entire year 1835. Over the following century the emphasis has shifted frequently between the Siamese twin functions of providing a market place and maintaining an effective market. In the roaring 1920's, as customers swamped Exchange members with orders, the function of providing market facilities was paramount. In the despondent thirties the problem shifted to one of maintaining the market. Today the problem of maintaining the market is still paramount.

To this end, the Exchange has made its wider facilities and its position as natural spokesman for the brokerage industry available to its membership to aid them in the program of broadening the base of corporate ownership. It has embarked on an advertising and public relations program designed to further this campaign. The simple phrase which has been chosen as the theme of this program is "Own Your Share of American Business".

Educational Aims

If I were asked to summarize in a single word the purpose of this campaign I would use the word "Education".

First – Education of all Americans to the significance of ownership capital in providing all of us with jobs and in creating new and better products. Education as to just what common stock is, that it represents an ownership share in a business concern.

Second – Education to the risks as well as the rewards of direct stock ownership – to the necessity for adequate emergency reserves and life insurance as prerequisites to such investment. Education as to the importance of obtaining full and complete information from a reliable source before making an investment and to the need to review periodically an investment, once made, with equal care.

Third – Education as to how to invest in common stock, as to the function of our Exchange and of our member brokers. Education concerning the facilities offered to investors by the Exchange and its membership.

This is the task which the Exchange has assigned itself and which it believes to be within its proper function. It is our goal to educate Americans to the point where they have a basic understanding of common stock investment. It [ ], nor our proper function, to sell individual stocks or to counsel when to buy. We are saying, "Don't overlook common stock investment when considering where to employ your savings." We are not saying, "Buy XYZ common today."

If through this educational campaign we can impart to all Americans a basic understanding of stock investment we shall not lack for equity capital. Armed with this basic knowledge each family in America can determine for itself, based on its own financial situation, the role it shall play in the ownership of corporate America. Many millions may decide that their situation precludes any ownership; millions will decide that indirect ownership through financial institutions is best suited to their needs; and millions more will decide to assume a direct ownership stake in American business through corporate shares.

<u>Expanded Facilities</u>

To implement this program the Exchange and its member firms have recognized the importance of improving the service and facilities which they offer both to the small investor and to the institutional investor. On the one hand we must develop high-volume, low-cost techniques to handle the increasing number of small purchases, and, at the other extreme, we must continue to improve our ability to handle large blocks of securities for institutions in the auction market in a prompt and economical manner.

Within the past year progress has been made along both these lines. The Exchange has developed new techniques to facilitate the handling of large blocks of stock as a regular part of the operation of the auction market. In addition, the Exchange and its member firms have developed and put into operation the Monthly Investment Plan. This Plan fills the long-felt public need for a system whereby stocks can be purchased by per[ ] of income. It does not involve the use of any credit. It merely enables the investor to buy, let us say, $40 worth of XYZ Company stock each month or each quarter at the prevailing market price. This is achieved by crediting him with fractional shares of stock.

This Monthly Investment Plan offers the investor the advantage of dollar cost averaging by providing a method for investing a fixed number of dollars in a security at regular intervals. This will reduce the danger of having new and small investors purchasing securities at what may subsequently prove to be high market levels. The danger of being forced to liquidate investments at depressed market levels can be minimized by adequate financial reserves prior to purchase.

The Monthly Investment Plan is proving already that it will meet the needs of many investors. In the first twelve weeks it has been in operation member firms have opened more than 13,500 accounts, an estimated 90 percent of them for people who never owned a share of stock before. We are particularly pleased to note the type of stocks which are being purchased under this plan. The most popular stocks to date have been: Radio Corporation of America, Dow Chemical Company, American Telephone & Telegraph, General Motors, Standard Oil of New Jersey, U.S. Steel, Tri-Continental Corporation (a closed-end investment company), and General Electric.

Much must still be done in the way of expanding services and improving facilities before our member firms are geared to the task ahead. The Exchange is at work now with member firms, aiding them in developing better marketing, merchandising, advertising and sales techniques. We are assisting in the analysis of costs, to determine where they can be reduced without impairing the quality of the services rendered. The Exchange community will continue to explore aggressively how best it can meet the [ ] with maximum efficiency and minimum cost.

Through our advertising and public relations programs, designed to educate potential investors to the risks as well as the rewards of stock investment, we hope to place before the American people the facts they need to determine what their own stake in America's future should be. By expanding the services offered we hope to facilitate the turning of that decision into reality.

That our hopes are not without foundation is indicated by the fact that a member firm has recently equipped three motor buses as travelling offices to carry a complete brokerage service to outlying communities of major cities. One of these will operate right here in the Boston metropolitan area, visiting five suburban towns regularly once a week for a full day.

Cooperative Program

When I speak, therefore, of the Exchange's program for broadening the base of share ownership, it should be clear that I refer to a cooperative program of the Exchange itself, its 4,000 members and allied members, its 614 member firms, their 13,000 salesmen and their thousands of other employees.

The Exchange and its member firms are fully aware of the responsibilities of undertaking a program to encourage new investment in corporate stock. We are not trying to sell stock indiscriminately to all comers. We are not trying to rekindle the fire of speculation which ran wild in the 1920's. We are trying to broaden the base of corporate ownership among millions of financially able American families which, when they have the facts and understand the risks and rewards involved, will step up and say, "Yes, we believe that we, too, would like to own our share of American business." This is a program which, if successful, will add mass investment to mass production and mass consumption as an achievement, [ ] bulwark, of America's competitive private enterprise system.

New Individual Investors

The most dramatic of the opportunities to broaden stock ownership is to encourage investment by individuals who are not now owners.

The past two decades have wrought changes in the distribution of income and wealth which have tremendously broadened the class of people who can safely assume the risk of common stock investment. There are now perhaps as many as 21 million families in this country who potentially are able financially to assume the risks of common stock ownership. Out of every 10 families in this country perhaps as many as 4 can afford to hold corporate stock. Yet today only one family in 10 owns the stock of a publicly-held corporation. (See Table VI)

These new shareowning families may come from any walk of life and almost any income bracket. Income alone is no longer the sole determinant in stock ownership. This is proved by the 5 million present shareholders with incomes of less than $10,000 and by the U.S. Steel stockholder survey which indicated that 53 per cent of the Steel Corporation stock held by individuals was in the hands of persons with annual incomes below that figure.

Every occupation is represented by these potential stockholding families. Today only one professional man in 8 owns stock, only one farmer out of 15, and only one merchant out of every 10.[19] In each of these groups alone there is a vast potential of new shareowners.

The immediate goal of the securities industry is to add a minimum of half a million new shareowners each year from this potential. It is a large order. But, if successful, it could be expected to provide one billion dollars in new equity money each year.[20]

<u>Existing Shareholders</u>

In addition to encouraging stock investment by financially able Americans who do not now own stock, our program is designed to encourage present investors to increase their existing holdings. This, too, can prove an important source of new equity capital as is evidenced by the fact that 46 per cent of our present shareowners own only one issue of corporate stock.[21] Having already taken the first big step, many are ready for the next one. If each present shareowner were to buy only 10 additional average-priced shares per year an aggregate of almost $3 billion of equity money would be added to the equity stream.[22]

Encouraging Institutional Investment

The third phase of the program to broaden the base of corporate ownership is the encouragement of equity investment by institutions. By facilitating and encouraging greater equity investment by institutions we will help millions of Americans to become indirect owners of corporate industry. Today ninety million life insurance policyholders, 15 million mutual savings bank depositors, 7 million workers covered by private trusteed pension plans and almost 2 million shareowners in investment companies are in varying degrees indirect owners of corporate securities.

For many people such indirect ownership unquestionably is the proper limit of their participation in corporate ownership. By encouraging greater equity investment by institutions we shall not only increase the degree to which present institutional savers are now indirect owners of corporate shares but we shall add millions of persons to the rolls of indirect owners of corporate America. Most important, institutions could well provide us with a billion and a half of equity capital each year.

This, then, is the program as we see it. The Exchange community has embarked on a campaign to increase the flow of equity capital to industry by broadening the base of corporate ownership in these ways –

First – increasing the number of direct shareowners by encouraging new stock investment by millions of financially able Americans.

Second – increasing the direct ownership stake of existing shareowners by further stock purchases.

Third – increasing the indirect ownership of corporate securities, both in number of indirect owners and the size of their holdings, through further institutional investment.

Taken together these three sources have the potential of tripling the flow of equity capital – of raising it from the present level of around $2 billion a year to between $5 and $6 billion.

The Exchange believes that the program of broadening the base of corporate ownership is of vital importance, not only because of the great need for the equity capital which it will provide, but also because such a program, successfully executed, will redound to the ultimate benefit of all, the investors themselves, American business and our entire country. What are these benefits that I believe will result from this program? There are many. Let me mention just five.

<u>Benefits to Investors</u>

First, it will benefit the investors themselves. It is my firm conviction that stock investment should play an important role in the financial programs of millions more American families. For a selected segment of our population stock should be as important a part of long-range financial planning [ ], savings accounts and savings bonds. Once a family has accumulated sufficient liquid savings for emergencies and has adequate life insurance protection it can consider investment in corporate stock as part of its long-range program for retirement, estate building or other purposes.

Stock investment in our great publicly-owned corporations offers rewards which are available through no other single medium. Nine out of ten common stocks listed on the New York Stock Exchange paid cash dividends in 1953. The average yield on the year-end prices of these stocks was 6.3 per cent. Two hundred and eighty-nine common stocks listed on the Exchange have paid cash dividends in every year for a quarter century or more – through the great depression of the 1930's and World War II.[23]

Besides the prospect of dividend yields far in excess of the return from most other investments, common stock also offers the possibility of protection against inflation, which economic history indicates is always the trend in a capitalistic system. Since 1939 the Bureau of Labor Statistics' consumers price index has increased 93 per cent while Standard and Poor's index of 480 stocks has risen 97 per cent.

Stocks listed on a national securities exchange give the investor the additional advantage of instant marketability and constant knowledge of the value of his investment. Stock investment in a well-managed company provides the one medium through which most American families can own their share of American business and profit from the dynamic growth which lies ahead for this country. The high intrinsic merit of common stock as a long-term investment medium has been demonstrated time and again and applies as well to the person of moderate income as to any other investor.

Increased Flow of Equity Capital

The second major benefit which will flow from broadening the base of corporate ownership is, of course, the increase in equity funds which will flow to business as a result.

The investment of 500,000 new shareowning families each year will, by itself, mean up to a billion dollars a year of new equity capital to help finance the growth which lies before us. The compounding effect of the annual investment of surplus savings by a growing number of existing shareholders will mean an additional several billions of equity capital a year. Coupled with increased institutional investment in equities we should thereby reach our goal of $5 or $6 billion a year. Such an increase in the supply of equity capital available to industry would encourage greater stock financing on the part of established companies as well as young companies, and would reduce the reliance placed on debt creation and on the retention of earnings. A sounder corporate financial structure will result with commensurate benefit to our entire economy.

Improved Market Liquidity

What other benefits would flow from a broader base of corporate ownership? What, for example, would be its effect on our securities markets?

The most important single advantage which our securities exchanges offer to investors is the market liquidity provided by a continuous auction market. This liquidity enables investors to buy or sell listed securities at any time at the best available price.

The effectiveness of this method, of course, depends upon the availability of sufficient bids and offers at all times reflecting the opinions of thousands of investors throughout the country motivated by various reasons, fears, hopes and expectations.

Broadening share ownership will bring to bear on the market place the value-opinions of many new investors and, through their bids and offers, will help promote market liquidity.

The potential importance of the middle income groups to market liquidity has been demonstrated by the Public Transactions Studies undertaken by the Exchange in recent years. Estimates based on these studies indicate that stockholders with incomes between $5,000 and $25,000 now account for close to 2/3 of the market activity of public individuals. (See Table V.)

That this will be increasingly true in the future is borne out by a study of new accounts which indicates that those with incomes under $10,000 now account for 70 per cent of the transactions, 55 per cent of the shares, and 49 per cent of the value of shares purchased for new accounts.

Table VII

Percentage Distribution of Transactions
For New Accounts Only

- By Income Groups –

Estimated 1952 Income	Number of Transactions	Number of Shares	Value of Shares
Under $5,000	27.8%	18.9%	16.0%
$5,000-$10,000	41.8	36.0	33.0
Sub-Total	69.6%	54.9%	49.0%
$10,000-$25,000	22.1	27.1	29.0
Over $25,000	8.3	18.0	22.0
Total	100.0%	100.0%	100.0%

Source: New York Stock Exchange, 1953 Public Transaction Study.

An increase in the number of individual investors is essential to counterbalance the impact on our Exchanges of the increasing ownership of listed shares by financial institutions. Market liquidity depends not only on the volume of business done but on the number of independent transactions consummated. The investment decisions of institutions must be counterbalanced by decisions of thousands of individual investors if our markets are to retain their vitality.

The improvement in market liquidity created by a broader base of corporate ownership will result in benefit to all investors, present and future, individual and institutional, for it will increase the ability of our securities markets to absorb a large volume of orders with minimum price fluctuations. It will insure the continued vitality of our securities markets which play an important role in our national economy.

Corporate Democracy

A broadened base will result in ever-increasing distribution of the control of industry throughout our population. This is perhaps one of the most exciting potentials of this program. Without too great a stretch of the imagination one can envision an economic democracy as potent as our political democracy. We are privileged to live in a country where any man or woman is free to purchase an ownership interest in a great American business. This opportunity and privilege is one of the strongest elements in America's free enterprise system. It is part of our priceless heritage of equality and freedom. I need not remind you that there is no Stock Exchange in Moscow.

Indeed, during a recent visit to four countries in Europe I found a surprising amount of interest in the Exchange's program and the Monthly Investment Plan. Bankers, brokers and industrialists alike were anxious to hear about it and to examine its applicability abroad.

Cynics may smile at the thought of the holder of a single share participating in the operation of an industrial giant. The single share is as insignificant to the end result as is the single vote in our political democracy. Yet the end result is determined in every case by the total of all the single shares or single votes. As a matter of fact, small stockholders in a number of listed corporations have recently found their votes to be very much sought after in the determination of vital issues facing their companies.

The New York Stock Exchange believes implicitly in the value of the voting right for the corporate shareowner. Since 1926 it has made the right to vote a prerequisite to listing of common stock. Every common stock now listed on our Exchange carries with it this right. Encouraging shareowners to make full and intelligent use of their franchise is an essential part of the Exchange's program.

As important to the shareowner as his right to vote is his right to full disclosure of corporate affairs so that he can cast his ballot intelligently. The campaign to broaden the base of corporate ownership makes it doubly important that the Exchange, the American Institute of Accountants and all accountants continue to work for simplified accounting forms and continue to stress the importance of full disclosure and periodic financial reports to shareholders.

We have come a long way from the day in 1866 when, in reply to the Exchange's new requirement that listed companies submit annual reports to stockholders, a leading railroad stated that we "make no reports and publish no statements and have not done anything of that kind for the last five years." Such a reply perhaps was to be expected in an age of rugged individualism and "caveat emptor". But the Exchange refused to acknowledge such rebuffs and over the years has incorporated higher and higher standards of disclosure and reporting as a prerequisite to listing. The result is that audited reports, annual meetings, the solicitation of proxies and quarterly earnings statements are almost standard corporate practice today. A measure of our progress is that today all companies listed on our Exchange submit audited reports and hold annual meetings; 94 per cent of our active companies solicit proxies and 88 per cent issue quarterly reports. A large percentage of the companies which issue semi-annual or annual reports only are in industries such as shipbuilding and sugar refining where the issuance of more frequent reports is apt to be misleading rather than helpful.

The work of standardizing corporate accounting procedures is a continuing effort. The Exchange, working with the American Institute of Accountants, has only recently revised its requirements concerning accounting for stock splits and stock dividends.

But there is still room for much improvement. Accountants must try to simplify and present more interestingly the figures which report a company's condition to its owners and to the general public. As we broaden shareownership more and more we will solicit the investment of people to whom the word "surplus" connotes obsolete army supplies, to whom the words "current ratio" mean something to do with the electric light meter. True, we must educate the public in accounting, but to facilitate the teaching we must reduce our methods and our jargon to the lowest common denominator possible. There is no question that the accountant has a big job to do in the program to broaden shareownership.

Armed with the insight into corporate affairs provided by full disclosure in simple terminology, shareowners can exercise their franchise with confidence and with the knowledge that they are engaging in a true form of corporate democracy.

A broader base of corporate ownership among individuals will also tend to counterbalance the centralization of ownership which would otherwise arise from increasing purchases of equities by institutions. Institutional holdings of ownership securities tend to concentrate in fewer hands the control of our corporate wealth rather than to distribute it more broadly as has been the basic American pattern throughout our history. Too great concentration of holdings of equity securities in institutions could create problems of the exercise of voting control over the corporations whose shares are held – problems as perplexing for the management of the institution as they would be significant to the well-being of our economy.

The danger of such concentration will be reduced in direct proportion to the increase in the number and size of the holdings of individual shareowners.

Capitalism Strengthened

The educational campaign which must accompany the program of broadening the base will serve to provide a more enlightened citizenry, aware of the direct benefits to themselves of our capitalistic system, whether they are direct shareowners or not.

The importance of a broader base of corporate ownership in improving the political climate for business operation was stressed by Professor Sumner Slichter in a speech last year in New York entitled "Strong Points and Weak Points in the American Economy" in which he said:

> "The history of the last twenty-five years..should be a warning that the owners of corporations are in danger of unjust treatment unless the number of corporate owners is greatly increased. Furthermore, the community itself has an interest in increasing the number of shareholders because the policies that satisfactorily represent the interests of the country toward corporations are not likely to be achieved if the political influence of shareholders is weak."

A broadened base of corporate ownership will not only strengthen our capitalistic system internally by providing a more enlightened electorate but will do much to strengthen our country against the onslaught of foreign ideologies. As I have said on other occasions – "Ownership speaks louder than oratory."

These, then, in summary, are the benefits which will flow from a broader base of corporate ownership –

First, it will give millions more individual Americans an ownership stake in the future growth of American business, to their ultimate profit.

Second, it will substantially improve the flow of outside equity capital to industry, thus providing a sounder capital structure throughout our economy.

Third, it will improve the liquidity of the nation's securities exchanges which play a vital role in our economy.

Fourth, it will provide broader distribution of the control of industry in accord with basic American democratic principles.

Fifth, it will provide all Americans with a better understanding of our capitalistic system, thus improving the internal political climate in which business operates and providing a bulwark against foreign ideologies.

It is my firm conviction that a program [ ] base of corporate ownership among financially able Americans can bring about all these things if soundly conceived and responsibly executed. I have every faith in the ability of the securities industry to carry out such a program in that manner.

Through such a program we shall alter the pattern of corporate ownership. As direct owners we shall have millions more Americans – people from all walks of life, from every age group and income bracket, people who, understanding the risks and rewards involved, have determined that they should own directly their share of American business.

These direct owners will be joined by many additional indirect owners, participating in our future growth through institutional investment – people who are aware of their ownership interest and of its importance to all Americans.

Such a pattern of corporate ownership will provide ready equity funds for new and expanding enterprise and will assure a healthy, dynamic and democratic capitalism.

America stands today on the threshhold of its greatest era. It needs millions of men and women willing to testify to their faith in the future of our system by pledging a portion of their savings to the creation of new jobs, the production of new products, and the further improvement of our standard of living. Such a pledge can bring them not only the promise of a share in America's growth but a feeling that they have done their part in creating the prosperity which their children will enjoy. To further such a venture is an endeavor in which the Stock Exchange, its members, the entire securities industry, accountants and good Americans everywhere can participate with confidence and enthusiasm.

Appendix

Footnotes to Lectures

(1) Joint Committee on the Economic Report, 82nd Congress, 2nd Session, The Sustaining Economic Forces Ahead, Washington, D.C., 1952, p. 19.

(2) Sumner H. Slichter, statement before the Kentucky Bankers Association, Louisville, Kentucky, October 20, 1952.

(3) U.S. Department of Commerce, "Corporate Profits", Economic Indicators, April, 1954, p. 22.

(4) Estimated by the New York Stock Exchange from Department of Commerce data on business expenditures for plant and equipment and capital consumption allowances.

(5) Murray F. Foss, "Investment Programs and Sales Expectations in 1954", Survey of Current Business, March, 1954, p. 10.

(6) U.S. Department of Commerce, "Sources and Uses of Corporate Funds", Survey of Current Business, April, 1954, Table 1, p. 15.

(7) Economic Report of the President, Washington, D.C., January 1954, Table G-16, p. 184.

(8) Based on capital per worker information shown in "Capital Invested by Industry and Worker", The Conference Board Business Record, July, 1952, p. 267.

(9) U.S. Department of Commerce, Markets After the Defense Expansion, Washington, D.C., 1952, p. 65.

(10) Charles H. Schmidt and Eleanor J. Stockwell, "The Changing Importance of Institutional Investors in the American Capital Market", Law and Contemporary Problems, School of Law, Duke University, Winter, 1952, p. 16.

(11) Estimate by the New York Stock Exchange, on the basis of year-end 1952 common stock holdings of New York State life insurance companies.

(12) Equity holdings estimated by New York Stock Exchange.

(13) Estimate by New York Stock Exchange. See also Irwin Friend, "New Influences in the Stock Market", Fortune, March 1953. Estimates exclude intercorporate holdings of non-financial companies.

(14) United States Steel Corporation, 1953 Annual Report, pp. 22-26, 28.

(15) New York Stock Exchange, Recent Annual Turnover and Minimum Unrealized Gains of Ten Selected Issues Listed on New York Stock Exchange, September 1953.

(16) New York Stock Exchange, 1954 Year Book, p. 34.

(17) New York Stock Exchange, Book Value Versus Market Price, December, 1953, (Summary).

(18) New York Stock Exchange, 1952 Annual Report, pp. 6-7.

(19) The Brookings Institution, Share Ownership in the United States, Washington, D.C., 1952, p. 98.

(20) As indicated by the average value of $2,200 for new account transactions shown in the NYSE 1953 Public Transaction Study.

(21) The Brookings Institution, op. cit., p. 110.

(22) The average price of shares listed on the New York Stock Exchange as of March 31, 1954 was $43.87.

(23) New York Stock Exchange, Investment Facts About Common Stocks and Cash Dividends, 1954.