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*Management
Looks at
Corporate
Ownership*

Remarks by G. KEITH FUNSTON

President, NEW YORK STOCK EXCHANGE

before the

SOCIETY FOR THE ADVANCEMENT

OF MANAGEMENT

Adolphus Hotel, Dallas, Texas

May 12, 1954

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It's a great pleasure to be with you gentlemen today and I appreciate your very gracious invitation. To tell the truth, I approached this gathering with some concern. Phil West, one of the Stock Exchange's vice presidents, spoke here in Dallas two or three weeks ago and I was a little afraid that the story might get around that Exchange officials are trying to blanket the State of Texas. I realize, of course, how difficult it would be to blanket Texas with anything.

The suggestion was made that I might like to discuss with you from management's viewpoint the Exchange's program of broadening the base of corporate ownership. The idea appealed to me immediately. While I've talked with a great many groups all over the country about almost every conceivable phase of the Exchange's operation, I was surprised to realize that I'd never really given the subject of management's stake in our program the direct and concentrated attention it deserves. I hope I can remedy that lapse with you today.

Before we can discuss the significance of this program to management we had better have a look at just what we are talking about.

Just what is the New York Stock Exchange's program to broaden the base of corporate ownership and why

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has the Exchange taken the lead in this campaign?

The Stock Exchange is basically an open market place where the securities of 1,100 of the nation's leading corporations are bought and sold by millions of American investors. To provide the physical facilities for this market place is, of course, one of the prime functions of the Exchange.

DOUBLE FUNCTION

But there is more to the Exchange's job than ringing a bell at 10 o'clock in the morning to signal the start of trading and at 3:30 to close the market. The Exchange has a double responsibility and a double function. Not only must we provide a market place. We must also strive to maintain a healthy market. 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. If, for example, Texas & Pacific Railway sells at, say, \$110 a share in one transaction, then rises to \$120 a share or drops to \$100 on the next trade—that is not a liquid market.

Liquidity has been described as the market's most precious asset. Any development which threatens to impair the liquidity of our market must, therefore, be a matter of instant con-

cern to the Exchange. We must, for example, take an active interest in those taxes which adversely affect the market's liquidity.

The capital gains tax is one illustration of a tax which might appear to be outside the ken of the Exchange to worry about. It is not. The tax—which, in effect, immobilizes capital and thwarts the free play of judgment in the market place—is a direct menace to the market's liquidity. It discourages the realization of gains and encourages the realization of losses. We are doing everything in our power, therefore, to modify and eventually eliminate the tax.

Double taxation of dividends might appear at first glance to have little bearing on our operations. Yet here is a tax which literally penalizes equity investment, and it is our obvious duty to the investing public to try to eliminate it.

HITS DOUBLE TAXATION

President Eisenhower recognized the importance of such relief when he said, "This year we propose to reduce by a modest amount or percentage the existing double taxation on dividend incomes. The more we can encourage savings and investments, the more prosperous will be 160,000,000 American citizens."

In addition to our concern over taxes we must take an active interest

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in the whole problem of the flow of equity capital to industry—a problem which has a direct long-range bearing on our Exchange. Since World War II American business has been raising \$3 through debt for every \$1 of new stock financing. This is a ratio which I believe must be drastically reduced. Instead of raising a couple of billion dollars a year through new stock issues, I believe we should be raising 5 or 6 billion dollars.

Part of the job of increasing the flow of equity capital from the investing public to business lies in the hands of Congress. Tax revision to eliminate, at least in part, the double taxation of dividends and to remove the roadblock to the free flow of equity capital created by the capital gains tax is long overdue.

SEEKS MORE SHARE OWNERS

But the main task of raising the needed equity capital lies in the hands of the securities industry. To aid in this task the New York Stock Exchange has initiated its program to add to the rolls of American share owners millions of families who are not at present owners of corporate stock.

The role of the Exchange in this program is really two-fold. In its direct dealings with the public, through advertising and other public relations media, it is attempting to explain to the general public the ABC's of com-

mon stock investment. The simple phrase which has been chosen to spearhead this campaign is "Own Your Share of American Business."

This advertising and public relations campaign explains just what common stock is, that it represents an ownership share in a business concern. It points out the risks as well as the rewards of stock ownership. It stresses the necessity for adequate financial reserves and full information before investment. It explains how to invest in common stock through our member firms and our Exchange.

WIDER UNDERSTANDING OF STOCKS

It is our goal to educate Americans to the point where they have a basic understanding of common stock investment. It is not the Exchange's task, nor its 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."

The second phase of the Exchange's activity in broadening the base of corporate ownership is its work with its own members and member firms in expanding the facilities which the Exchange community offers to the investing public. The Exchange is at work now with member firms—aiding them in developing better marketing, mer-

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chandising, 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.

Out of this close cooperation has come the Monthly Investment Plan introduced in January of this year. This plan fills the long-felt need of the investing public for a system whereby stocks can be purchased regularly by periodic payments out of income. It allows the investor, without borrowing any money, to buy, say, \$40 worth of XYZ stock each month or each quarter at the prevailing market price. This is achieved by crediting him with fractional shares of stock. Despite the added work involved for our member firms there are no additional charges for this program beyond the usual costs of a small securities transaction.

15,000 BUYERS

The Monthly Investment Plan is proving already that it will meet the needs of many investors. In the first three months it has been in operation member firms have opened some 15,000 accounts. We are particularly pleased to note the quality of stocks which are being purchased under this plan. RCA, Dow Chemical, American Telephone & Telegraph, General Motors and Standard Oil of New Jersey top the list of favorites.

Through our advertising and public

relations program, designed to educate potential investors to the risks as well as the rewards of stock investment, we hope to place before millions of American families the facts they need to determine whether they should invest in stock. By expanding the facilities we offer investors we hope to make it easier and more convenient for them to invest. If we are successful we shall see a substantial increase in the pool of equity capital available to American business.

MORE EQUITY CAPITAL

In appraising the significance of this program to broaden the base of corporate ownership, management, of course, wants the answer to the question—What does it mean to us? Does a broader ownership base offer any concrete benefits to American business? What added responsibilities will it bring?

Perhaps the greatest single benefit to corporate management resulting from a broader base of corporate ownership would be the substantial increase in the supply of equity capital available for corporate financing. This increased supply of money provided by common stock would make it easier for all corporations, large and small, to float new stock issues and to reduce their reliance on debt financing and retained earnings for future growth. The importance of broad

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share ownership in facilitating new financing has been most graphically illustrated by A. T. & T.'s experience since World War II. This company during the past 8 years has raised \$2.6 billion by issuing convertible debentures, and 98 per cent of this amount has been raised by exercise of subscription rights issued to its 1,265,000 stockholders. Of this vast sum \$2.2 billion, or 85 per cent, has already been converted by the owners from debentures to common stock.

Many other direct and yet intangible benefits will flow to the individual company which adds to the number of its corporate owners.

ERA OF SMALL INVESTOR

As a company increases its corporate family it will add many people of modest income to its list of stockholders—retired couples, professional men, farmers and working men. The introduction of such a broad cross-section of the public as owners can have a marked effect on a corporation's public relations and its labor relations.

The picture of the hardhearted capitalist oppressing the workers takes on a new perspective in a company like U. S. Steel where 53 per cent of the stockholders have incomes below the average wages paid to the company's steelworkers.

Many companies producing consumer goods have found their share-

holders to be not only loyal consumers of the company's products but real company boosters as well. To these companies more owners can mean increased sales and a type of word-of-mouth advertising which is irreplaceable. We at the Exchange put a reverse twist on shareholder loyalty to a company's product when we ran quarter-page newspaper ads asking people if they had ever considered becoming owners of the companies whose products were found in their homes.

Business leadership can look forward to other benefits from this program to broaden the base of corporate ownership.

The educational campaign which will accompany this program will serve to provide a more informed citizenry, aware of the direct benefits to themselves of our capitalistic system. This should insure American business of a more favorable political climate in which to operate than it has seen in the past two decades.

The importance of increasing the number of share owners has long been recognized by many of the country's leading economists. Professor Sumner Slichter of Harvard University has 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 not only will strengthen our capitalistic system internally by providing a more enlightened electorate, but it 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."

In brief, these are some of the benefits which corporate management can reap from encouraging broader stock ownership in America—healthier corporate financing, improved public and labor relations, increasing sales and a better political climate for business operation.

MORE EMPHASIS ON DIVIDENDS

With these benefits will come added responsibilities. As the family of stockholders grows the corporation will find among its owners many persons of modest income—persons to whom dividend income is vitally important. To these new owners management will have the responsibility of seeing that a fair portion of earnings is paid in dividends and that dividends are contin-

ued whenever possible. As the circle of corporate owners broadens, management must also assume more and more a fiduciary role. For management has been entrusted with the savings of its share owners and owes to them many obligations. Among these are the need for full disclosure of corporate affairs to its owners. As we add to our list of share owners we must simplify our financial reporting and present it in as interesting a way as possible. For we will add as stockholders people to whom the word "surplus" now connotes obsolete army supplies, to whom the words "current ratio" mean something to do with the electric light meter. Corporate management will have the responsibility of reporting corporate affairs in terms that these new owners can readily understand.

RIGHT TO VOTE

Armed with the facts about corporate affairs our new share owners can exercise their right to vote in an intelligent and helpful manner. The New York Stock Exchange believes implicitly in the value of the voting right for the corporate share owner. 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 the right to vote. Encouraging share owners to make full and intelligent use of



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that right is an essential part of the Exchange's program. Through their voting rights millions of new investors will bring about a true corporate democracy in this country.

"OPEN HEARING"

Just two weeks ago Americans were privileged to see, in their own living rooms, an example of corporate democracy at work when John Daly's "Open Hearing" brought the Continental Can Company Annual Meeting to its ABC viewers. This program marked the first public televising of a stockholders' meeting. The significance of this fine show, in which I was privileged to take part, was made clear by Mr. Daly when he said, "Yes, all the elements of American life are based on this practice of democracy including our industry. American big business must be responsive to the free discussion of a town meeting of its shareholders and this is the time of year when management reports its stewardship to millions of little bosses. Across the country, this is the season for the annual meetings of industry and its little bosses. And the ticket of admission is a share of stock."

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 im-

agination 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 great 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.

One of the most encouraging things we at the Exchange have discovered in undertaking this program is the fact that corporate management is fully aware of the benefits of increasing the number of share owners in America. Solid evidence of this is the support and cooperation we have received in undertaking this program. This spirit of cooperation was brought home to me at the very outset of my term as President of the Exchange.

STOCKHOLDER SURVEY

At that time the Exchange commissioned the Brookings Institution to undertake a comprehensive survey of the shareholding population to determine who actually owned our great publicly-owned corporations. This task would have proved impossible except for the enthusiastic cooperation given the project by management. Approximately 3,000 corporations participated in the survey and the continuing assis-

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tance they provided left no doubt in my mind that management was just as interested in our program of broadening corporate ownership as we were. I'd like to add that this assistance was not in the form of a polite letter of approval from a corporation president. For perhaps a majority of these companies it was a special project in itself to gather and analyze the detailed information necessary for the survey. We hope to continue this work—to measure the increase in the number of share owners each year by analyzing changes in stockholder lists of representative companies. This project will require the continued cooperation of corporate management.

JOINT EFFORT

The Exchange normally maintains a close liaison with the managements of our listed companies. One officer of the Exchange spends a great deal of his time travelling around the country and discussing with management problems of mutual interest. Through these discussions we have discovered a deep vein of management awareness that a vast educational program to tell people everywhere about our business system is vital to the life of that system. To keep our listed companies informed of the various techniques and media being used to get across to employees, customers and share owners some of the facts of life about our busi-

ness system, we have made it a regular part of the Exchange's program to distribute to all listed corporations outstanding educational work done in this field.

Another striking illustration of management cooperation with the Exchange occurred during the past year when we gave our views to Congressional Committees on the capital gains tax and double taxation of dividends. Reprints of my testimony before the House Ways & Means Committee and the Senate Finance Committee were distributed to the presidents of our listed companies. By the time we had finished filling their requests for reprints, the Exchange had printed roughly half a million copies of the double taxation testimony and more than a quarter of a million on the capital gains tax. Copies were distributed to stockholders, to members of Congress, and to educational leaders. In addition, a great many companies drew on our material to issue statements on these taxes under their own names. I am convinced that this generous reaction to our own efforts had a great deal to do with the sympathetic consideration given our views in Washington.

Many companies, as you know, have employee stock ownership plans and have had for a number of years. Several years ago, however, management interest in these plans increased to the

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point where we at the Exchange found it desirable to publish a compilation of the various types of plans which our listed companies had in effect. And less than a year ago a revision of this booklet was published in response to continued inquiries from corporate management.

Since the Monthly Investment Plan was introduced three months ago we have discovered that corporate management is fully alert to the great potential of the Plan. A number of companies are studying the Plan with a view to modifying stock purchase programs now in effect or introducing employee purchase plans for the first time.

Still another illustration of management's constant alertness to the importance of a large share-owning population got under way just in the past few weeks.

NEW WINDOW DISPLAYS

The view of a broker's street level office traditionally offered to the passer-by has been an expanse of solid black with gold lettering—or perhaps a heavy curtain discreetly drawn across the window above eye level. Indeed, at one time Stock Exchange rules indicated that this was the proper procedure. Now—and again with the support of management—we plan to use these windows to tell the story of industry and the Stock Exchange on the

sidewalks of some 200 towns and cities from coast to coast.

Three-dimensional, animated and lighted exhibits are being installed in the street level windows of 72 member firms of the New York Stock Exchange in eight eastern states and the District of Columbia. Prominent listed companies will tell the story of their growth and explain the role of our Exchange in the economy. Eventually this project will extend to the South, Middle West and Far West. The audience we expect to reach each year totals 50,000,000 people.

MUST REACH EVERYONE

Through such cooperation corporate management has demonstrated a willingness to devote time and money to the furtherance of our program—clear evidence of a belief in its essential soundness. Business management and the Stock Exchange know that our free and enterprising system of capitalism cannot prosper, cannot even endure, unless the rewards offered by that system are available to the greatest number of people possible.

To see that millions of financially able Americans join the ranks of share owners is the goal of our program. Such a venture is an endeavor in which the Stock Exchange, its members and corporate management everywhere can participate with confidence and enthusiasm.