

CAUTION - RELEASE ON DELIVERY

ADDRESS

of

WILLIAM O. DOUGLAS

Chairman, Securities and Exchange Commission

before

The Yale Club of Washington

Raleigh Hotel

Washington, D. C.

Wednesday, April 27, 1938 - 8 P.M.

I am glad of this opportunity to pay tribute to the great educational traditions of Yale and its distinguished President, Dr. Seymour. These traditions have been born of a strict insistence both upon scholarship and upon intellectual freedom. They have been marked by a healthy restlessness of spirit and a constructive dissatisfaction with the past for its own sake. These forces in the Yale environment have been productive of new horizons in both science and letters. They have made the Yale climate healthy for both the mind and the spirit.

For these reasons has Yale made such a notable contribution over the years to the public service. Its traditions are strong in public service of the highest order. Education based on such traditions produces men flexible for change; stable for responsibility; sensitive to the pressures of social evolution. These qualities are essential for the increasing responsibilities of modern government.

The growing complexity of state and national government over the decade is obvious. The social and economic pressures which have created these increases in governmental activity are not fancied but real. Though their particular forms may change, the advent of these new instruments of government promises to be permanent. That in itself is not a political but an educational challenge. Those who man these agencies of government must be skilled not only in the art of government but also in technical skills which these specialized tasks demand. If we are to receive full service from government, the universities must give us trained men. That means a constant reorientation of university instruction and research not for the mere purpose of increasing technical proficiency but for the purpose of keeping abreast with social and economic change. Universities attuned to this program of change can and will render government lasting service, for government is no better than its men.

There is thus a real challenge to universities to produce men competent and equipped to do the increasingly important tasks of government. The experience I have had in government has to a constantly increasing degree emphasized the importance of this. We have indeed been fortunate to date. But we must provide for future needs. We must at all times be manned by those who are stimulated by a desire to bring order into the administrative procedure and above all to keep government geared to the swift changes of the times.

In my particular bailiwick there has been no place for drifting. The problems of our economic and social life which have been assigned to the SEC are dynamic - constantly changing - constantly calling for supervision over change and the removal of obstacles to natural change. In the past, the sprawling systems of the gigantic public utility holding companies, for example, shifted endlessly and fantastic corporate structures grew with abandon. In the past, these developments were often without direction, without relation to the broader purposes of sound finance. In the future, under our supervision, but still energized by the boundless initiative and ingenuity of the men of industry, they will have direction and they will create form and pattern. Capital structures will assume greater simplicity and conservatism. The pink spots of one system which are now scattered amor- phously over the nation's map will tend to draw themselves together into a

solid mass - a symbol of economic and geographic integration for the better service of consumers and the greater security of invested capital. Upon the men in the SEC and in the industry rests the responsibility for the final accomplishment of this gigantic financial and engineering task, for they must supervise and assist in every move that is made. This surely is an undertaking that is beyond the realm of bureaucratic humdrum.

Another great arena of action which presents a constant challenge to administration is our financial markets - particularly our stock exchanges. For too long there was no change in this field. Too long did our stock exchanges remain institutions for the easy prerequisites of their members and the precarious satisfaction of a speculative urge. The position of the investor who owned securities which happened to be traded on the stock exchanges was too often a secondary consideration. The exchanges formerly operated as private clubs and as such, they regarded themselves as beyond regulation. Much of that has changed in the short space of four years, and a great portion of this change has come since last November. In that brief period, the old attitude appears at last to have been dispelled. There is a new and enlightened recognition of the public responsibilities of these institutions. Definitive action towards the objective of the creation of an institution truly sensitive to its public responsibilities lies ahead for the new men who will be at the helm of our greatest exchange. But all this was not done by legal mandate. It was accomplished by administrative direction and by leadership both in the exchange and in government, which gave voice to the long slumbering urge for change both from within and without. Guided by the public interest and reinforced by extensive study, the Commission was prepared to take that leadership. In the encounter with the problems which lie ahead in this field, the Commission is again prepared to lend its support to the efforts of the new leadership which is moving towards our common objective.

Again, in the field of corporate financing we have problems which shift so swiftly that it is virtually necessary for us constantly to anticipate in order to keep abreast. In the preservation of the profits system, there are few matters of greater significance than the smooth functioning of the machinery by which industry obtains its capital from the savings of the public. First, the public must have savings to invest; second, the public must have confidence that its investment will have a reasonable chance of making a fair return and that the opportunities for fraud and deception on the part of promoters, management and underwriters are reduced to a minimum; and third, industry must be able to get money at the time when it can use it. There has been growing recognition of the fact that small business, due to a myriad of circumstances, has been having an increasingly difficult time in getting money for capital expenditures such as plant, machinery and the promotion of its products. We realized that this condition seriously jeopardized our national welfare. To be sure, basic economic problems of that kind cannot be solved merely by relaxing regulation. The real problem strikes much deeper. But administrative procedure may help or assist. So when the President of the United States recently asked us if there was anything we could do about this within the framework of our present statute, the Securities Act, we were able forthwith to take several steps to cut down the paper work and the expenses of small business and to give it some further assistance in conforming to our procedure. And we were

able to do this without curtailing the basic protection which the statute affords investors. This indicates again that there is room within this soundly constructed statute for administrative elasticity when the occasion demands. Our determination to operate within these bounds is fortified by the following letter I have just received from the President:

"I have examined closely the action of the Securities and Exchange Commission the other day. You and the other Commissioners are to be congratulated for taking these steps in the interests of small established enterprise in need of capital financing.

"You are well acquainted with my pride in the securities legislation as one of the major accomplishments of my Administration. Of course, I could never sanction steps which would in any way weaken the protection which these statutes afford to a Nation of investors. For that reason I am particularly gratified that you have taken these helpful steps within the framework of the statute."

Flexibility in administrative procedure under these new agencies of government is a basic necessity. Their paramount importance is measurable not only in terms of change in our economic and social order but particularly in terms of the rate of such change. Democratic government to compete successfully with its virulent competitors must be mobile, bold and intelligent. Its strength lies in its ability to keep pace. Large areas can be served dynamically by administrative government that has power and discretion to deal directly with current problems. For that reason administrative government holds great promise not of being a bureaucratic blight but an energizing and directive influence.

But this calls for trained men. And so it is that we must look to our educational institutions like Yale for our strength. With that strength we can obtain the flexibility necessary to keep pace with our volatile civilization. Flexibility in any institution is difficult to obtain. Special vested interests acquire their strongholds. Habit and the ease of inaction dissipate constructive endeavors. Tradition exacts its toll. All institutions strive against these forces, whether they be universities or government. Progressive administration always in search of new horizons can conquer these influences. Constant readjustment of the educational processes can give us men who will keep the forces of democratic government virile and healthy. That is one reason why educational institutions are the real reservoirs of strength of democratic government under a capitalistic system.