

HOMECOMING CONVOCATION

Address by

**RALPH H. DEMMLER
Chairman
Securities and Exchange Commission**

at ALLEGHENY COLLEGE

Meadville, Pennsylvania

October 23, 1953

HOMECOMING CONVOCATION

Address by

Ralph H. Demmler
Chairman
Securities and Exchange Commission

at ALLEGHENY COLLEGE
Meadville, Pennsylvania

October 23, 1953

If this address were being delivered at a service club luncheon, I would probably entitle it **LIFE'S MORE COMPLICATED THAN YOU THINK**. Since, however, it is being delivered to an academic audience - albeit in a gymnasium - I will dub the subject as **THE CHALLENGE OF COMPLEXITY**.

There is nothing simple about representative, political democracy coupled with a system of relatively free capitalistic private enterprise. Add to that - in the case of the United States - 48 states with limited sovereignty and each with a system of

local home rule and you have something that to a logician looks like chaos. Yet it works. Why? Probably in large measure because the forces and counter-forces of Federal government against state government, of Republican against Democrat, of capital against labor, of Protestant against Catholic, of Jew against gentile, of railroads against trucks, of farmers against city dwellers, of steel against aluminum, somehow work out a balance.

If we as individuals were permitted to be mere spectators of that complex scene, we could settle back comfortably and watch life go on, feeling confident that everything that happened would turn out for the best.

But we as individuals are not spectators but participants. We are usually in the middle when a force meets its counterforce. A company is manufacturing gas from coke when natural gas is

piped into the territory and the markets for manufactured gas shrinks to insignificance. A college plans a building program, conducts a campaign and then a depression comes along so that donors can't pay their pledges or conversely, a boom sets building costs skyrocketing.

Obviously, no academic curriculum can give a man the gift to guide himself, his family, his business, through the mazes of life to unalloyed happiness or success. But the measure of an effective educational process is the degree to which it helps people to find their way through the labyrinth that characterizes modern life.

Such preparation - certainly on the college level - must necessarily include preparation to lead and take responsibility for others. From colleges come men and women who in the normal course of events rise above their fellows into positions

which confer power to make decisions affecting large numbers of people - tens, hundreds, thousands, millions. Our educational institutions fail to the extent that they fail to discharge their responsibility to furnish that kind of preparation for life.

A person has not been effectively educated if the process has not improved his ability to anticipate and solve problems - problems of personal life, family life, business life, professional life and community life.

Responsibility for decision compels thorough consideration. Bright ideas and generalities aren't enough.

In the fast changing world of today, we are compelled to be adaptable. That means the ability to change approaches. In the field of government, the depression called for new techniques to work our economy out of the slump. World War II called for new techniques in mobilizing our whole national life - rationing,

price control, wage control, selective service, priorities. The post-war era called for new techniques in filling power vacuums, in shoring up crumbling nations. The new Administration in Washington is confronted with the problem of determining how much of the depression-born and war-born system of centralized control is really needed under today's conditions.

More than that, the new Administration is challenged by the problem of bringing order out of the chaotic complexity of our governmental organization.

The second Hoover Commission on Organization of the Executive Branch of the Government will address itself to problems not only of organization and management but also to questions as to how many functions now performed by government are in fact unnecessary. The new Commission on Intergovernmental Relations headed by Clarence Manion, former Dean of Notre Dame

Law School, will study one of the knottiest problems of government today, namely, the overlapping of Federal state functions and expenditures.

The reexamination by a new administration of the policies of its predecessors is a painstaking process which cannot be carried out impulsively and in haste. The appraisals in the press of the first hundred days or the first six months of the Administration are far too premature to be accurate. Changes will not be brought about by the kind of bluff which characterizes the recitation of a student who hasn't done his home work.

Changes must concern specific details and specific situations, the situation of one Federal employee to take care of each 32 Indians, an instruction book of 994 pages once issued by an agency to explain an 8-1/2 page law, modernization of government accounting, duplication of jurisdiction between state and Federal regulatory

bodies and between different Federal regulatory bodies. For example, in a number of instances, both a state commission and the Securities and Exchange Commission have jurisdiction over the same transaction. To make any one change involves a detailed study of its effect on the overall organization of government, of the cost or savings involved, of its effect on people. Believe me, it is not a job for amateurs with nothing but bright ideas.

But this need for intelligent adaptability isn't limited to affairs of state and international power politics. Churches must adapt themselves to neighborhood changes and use older city churches for programs of service to a different type of parishoner. School boards must keep pace with shifting populations and with the need to furnish vocational training for new industries. The dairy industry must advertise skim milk to counteract the fall in sales due to the national fight against the expanding waist line.

The chemical industry must learn to make new fabrics. The woolen industry must learn uses of wool in the new fabrics.

I haven't even mentioned changes that might come from increased knowledge and use of atomic energy.

Are our liberal arts colleges preparing people for intelligent leadership in this fast changing world? I don't know.

I am asking the question in the thought that you too will ask it.

Certainly we cannot assume that the educational process which has served reasonably well up to the present time will necessarily suffice in this 'age of technological development, economic expansion and breathless preparation to defend the human race against self-destruction.

The curriculum of the liberal arts college has undergone a great change in the last 75 years. Latin and Greek have largely disappeared. Modern languages have moved in. Mathematics

remain but too few take the hard courses. The social sciences, the natural sciences, philosophy, art and various practical courses such as accounting, education, corporation finance and taxation - all of these are offered. No one would seriously question the value of any of them.

The question is, however, whether the present curriculum as taught trains men and women to assume the almost terrifying responsibilities of making important decisions in today's world.

I suggest humbly and respectfully that too many college graduates go out with a large fund of general information but not enough basic mental skills. Many reading courses lead to an ability to discuss a subject intelligently but do not necessarily equip a person to analyze a problem and come up with a solution.

I happen to be a lawyer and you will forgive me, I hope, for telling three anecdotes connected with the study of law.

In 1936 one of my former law partners asked President Conant of Harvard his opinion as to the best undergraduate preparation for the study of law. The answer was to major in a science, preferably physics, and to minor in mathematics. The son of the questioner, who followed that advise, is a skilled lawyer today.

I was driving over the Turnpike one night a few years ago with a young lawyer well placed in the law department of a large corporation, and we were talking about undergraduate courses leading to the law. He had gone to what was then the Sheffield Scientific School at Yale, preparing to be an engineer. His grades were mediocre and he decided that engineering was not his field. He thought perhaps he might follow his father's profession of law. He consulted the dean of the Yale Law School and suggested that lack of standard so-called pre-legal courses

and his mediocre grades at Sheff might preclude his admission to law school. The dean told him that in the experience of the law school, men who had made ordinary grades in engineering normally surpassed those who had reasonably high grades in typical pre-law academic courses.

In connection with a matter I was handling for a life insurance company in 1950, I worked long and intimately with another lawyer, a brilliant chap who was the son of the president of the company. The father had formerly been a professor of law. Both father and son were outstandingly competent in the exact and graphic use of English. I happened once to talk to the father about this quality of his son. Fatherlike, he admitted what I had to say and gave credit to the fact that his son had devoted his undergraduate years to Greek, Latin, physics, chemistry and mathematics.

What is the moral? Only this. That mental disciplines are more important than information. It is easy enough to gather information as we go along through later life but the acquisition of basic mental skills and basic mental tools is a function of formal education. Consequently, one who takes all the courses offered in a field of knowledge - history or philosophy, for example - and neglects the sciences or languages or mathematics is passing up his last opportunity to acquire a basic form of knowledge or mental skill.

You will realize that I do not deprecate reading courses; I merely suggest that in formulating what might be called the product mix of a curriculum, consideration be given to the fact that it is easier to supplement by reading in later life a college course in history or philosophy than it is to sit down years later and learn the rudiments of mathematics or physics.

In the complex world of today a person with responsibility for important decisions - and this is the kind of person every student is hoping to be - must base those decisions on a multiplicity of considerations, technological, social, economic and psychological. He must have the ability to appraise the information on which he relies. He cannot rely on over-simplified generalities. I dare say that the engineer, the business executive, the public official, the lawyer, the doctor, the minister is called upon to do as much abstract and theoretical thinking as the professor or the research physicist and that thinking must cover many fields of knowledge. And since direct tangible results flow from their decisions, the soundness and thoroughness of that thinking and the knowledge on which it is based are of vital importance. In turn, the accuracy of one's appraisal of the considerations leading to a conclusion depend upon the disciplined character of the mind that makes it.

All of us have heard many times, in college and out, that knowledge is not divided into nicely separated components.

Neither are the major vocations and professions. Business is science, economics, accounting, sociology, psychology and effective English. The ministry is philosophy, psychology and articulate speech as well as theology. Medicine is science, psychology, philosophy and the ability to communicate. Being a successful housewife involves an understanding of a husband's problems, economics, a sound social sense, an awareness of community problems, certainly enough science to understand modern appliances, and a sound philosophy of life. Engineering is more than a drawing board. The successful engineer is an economist, a physicist, with some chemistry and an ability to use English effectively thrown in.

I hope you will excuse my drawing for the purpose of further illustration upon my own brief experience to date in the field of government. The Securities and Exchange Commission over which I have the honor to preside, is entrusted with the administration of half a dozen Federal laws relating to the capital markets. It has to do in general with the regulation of issues of securities, the regulation of stock exchanges and the regulation of public utility holding companies and investment companies.

Reduced to simple terms, these laws require corporations to tell investors the truth about their securities and in the case of some types of companies to observe rules of fair play with their investors. No one can quarrel with these objectives. They sound simple enough. But the laws which prescribe the detailed methods to obtain these objectives are amazingly complex and the problems of administering them even more so.

What kind of information is required to tell the material facts about a company? What kind of transactions are unfair to stockholders and bondholders? How far can any agency of government create business morality by legislation or regulation?

How can a government regulatory agency avoid a degree of interference that stifles ingenuity and initiative? How is it possible to prevent red tape accumulating to the point that everyone is tripping over it?

Since these security laws vest large discretionary powers in the Securities and Exchange Commission, how can the Commission get enough information to make decisions intelligently without unnecessarily holding up the progress of day to day business?

These are all fundamental questions which confront people who have administrative responsibility in government. It used to be in more simple days that the acts of Congress spelled out

the law on a particular subject and that was that. In more recent years, because of the complexity of modern life, many of our laws are couched in very general terms and leave to administrative agencies the responsibility of filling in details by rules and regulations. Some one in the New Deal days referred to this as government by mimeograph.

I mention all of this, not to suggest that the vesting of such powers in a governmental agency is necessarily unwise or evil, but to point out that assumption of that kind of power by government means that we must have people trained to discharge the responsibility of exercising that power wisely and efficiently.

We talk a lot about a liberal education as being designed to train one for making a life in addition to making a living. Both of these concepts are a little too narrow. The training must be aimed also toward preparation for assumption of responsibility in the ever-changing life of the community and

by community I mean everything from the neighborhood to the world.

We cannot be satisfied with mediocrity in education.

The relevant facts bearing on the solution of today's problems cover more fields of knowledge than ever before. One without the training and skill to recognize, assemble and evaluate those relevant facts is doomed to mediocrity. A little discouraging? Perhaps. Challenging? Yes!

#