# THE PLACE OF THE STOCK EXCHANGE IN THE U.S. ECONOMY

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THE New York Stock Exchange is a market place for securities. It is a vast trading floor in a building at the corner of Broad and Wall Streets, New York City. It is the nation's largest organised securities market, where hundreds of Exchange member brokers daily buy and sell, for thousands of people, millions of dollars worth of shares of stocks and bonds of America's leading corporations.

Wall Street once was the political capital of the United States, just as it is the financial centre of the world today. Here the New York State Chamber of Commerce pressed the fight on the Stamp Act and the tax on tea. Here Washington took the first Presidential Oath of Office and the first Congress gathered.

In 1792, a group of merchants decided to meet daily at regular hours to buy and sell securities under the wide branches of an old buttonwood tree on Wall Street, only a few blocks from the site of the present Exchange. These twenty-four men were the original members of the New York Stock Exchange. In 1793, the brokers moved indoors into the Tontine Coffee House. During the next 100 years, the Exchange moved a dozen times or so before it settled down at its present location, at the corner of Broad and Wall Streets.

**Where Buyer Meets Seller.**

In a fundamental sense, the New York Stock Exchange is more than a market place for securities. The following legend could well appear beneath its name: "Here is where people buy and sell ownerships in America's leading corporations."

For, after all, what is a share of stock? It's a share of a business. The man who owns shares in, say, General Motors or American Telephone and Telegraph has an ownership interest in that company, with his risk as a co-owner being limited.

Let's say you own stock in a chemical company listed on the New York Stock Exchange—twenty-five shares out of the five million the company has issued. This means you own that fractional interest in the company's plant, its laboratories, its raw materials, its inventories, its goodwill, its sales organisation, its patents and, last but not least, its management. In short, you own an interest in everything that company has or may have in the future.

The Stock Exchange is the place where share certificates—evidences of ownership interest—may be bought and sold.

The Exchange operates in a rather unique fashion. It is not like the conventional auction where only buyers compete and there is only one seller. On the Exchange there is a "two-way" auction market. Here is the way it works: Buyers compete with each other to purchase the shares they want at the lowest price available. Simultaneously, sellers compete with each other to get the highest price anyone will pay for the shares they want to sell. Finally, the buyer bidding the highest price and the seller offering at the lowest price make a transaction at a price that is acceptable to each.

The Exchange is a market place where prices reflect the basic law of supply and demand. It is a market place where shares in American industry can be bought and sold almost as readily as you can deposit money in the bank. By bringing buyers and sellers together in one open market the Exchange becomes an integral part of our American way of life, implementing the Founding Fathers' creed that we all have the right to hold property. It's natural that it should, for the New York Stock Exchange is just about as old as the United States.

**Need for Marketability.**

In a free country, capital as well as labour must be free to work at whatever it chooses; free to move easily from one enterprise to another—entitled to the profits when the venture succeeds, ready to stand the losses if it fails. An investor may buy shares of a company listed on the Stock Exchange in the hope of handing them down to his grandchildren. But the knowledge that he can sell the securities on a few minutes' notice plays a basic role in his investment decision.

Actually, the Exchange serves a dual purpose.

For the saver, as we have seen, it provides a medium by which he may convert his funds into securities which he hopes will bring him income, a gain of capital, or both. Without this invested capital America would not enjoy the products of modern industry which are taken for granted today.

Although the New York Stock Exchange is not in itself a source of new equity capital—of risk funds essential to developing new industries and enlarging productivity—the flow of new capital soon would halt without it. **If there were no Stock Exchange, no national market place where people could turn their investments into cash at will, investors would soon become impotent to finance any new ventures, no matter how promising.**

In a comparatively short span of years, the American industrial scene has enjoyed a growth unrivalled in world history. American capitalism has put money to work producing more goods for more people at less cost. Fuelling our 43,000,000 automobiles, for example, is the oil industry, with an investment of $25,000 in plant, tools and equipment for every workman employed. And when you flip the switch which releases electric energy, you are commanding machinery which costs millions of dollars and is supervised by relatively few men.

That's a lot of money for machinery. But it's worth it. **For this heavy investment in tools and machines enables the American workman to turn out more oil and more automobiles and more electric power than any other workman in the world. And because he as a worker produces so much, he as a consumer enjoys more at less cost.**

**That is the basis of the American standard of living. That is American capitalism today and money at work.** The Stock Exchange makes share owning in this system readily available to millions of people.

**Wide Spread of Ownership.**

Who owns American industry? Wall Street? A tight little group of economic royalists? That notorious character with the checkerboard waistcoat, egg-sized diamond stickpin, fat cigar and hog jowls—the "capitalist"?

The answers to these questions were given in a comprehensive 140-page report published last year by The Brookings Institution,* which was commissioned by the New York Exchange to ascertain all the facts concerning share ownership in U.S.A.

*"Share ownership in the United States", published June, 1952.

The survey breaks down and analyzes shareholdings on the basis of voluminous data supplied by 2,991 corporations, as well as several hundred banks and share-brokers.

The data dealing with individual share owners were compiled from a field survey of 15,000 people representing a cross-section of the population. Share ownership by individuals is analyzed also by sex, age groups, education, income, occupation and type of employment. The percentage of share owners to the total population in each group, the number and kinds of different stocks which individuals own, and how long these people have been stockholders, were all carefully tabulated.

The principal findings of The Brookings Institution were:—

- There are 6,490,000 individual Americans who own one or more shares in publicly-owned corporations in U.S.A., i.e., one in every sixteen adults is a share-owner and there are one or more shareholders in one-tenth of all families. It is estimated that there are a further 3 million owners of shares in non-listed companies.

- The gross number of stock holders—counting a share-owner once for each investment in one or more stock issue—is 30,300,000. The average number of issues per share-owner is estimated at 4.1. Only 8% of all share-owners hold ten or more stock issues.

- 76% of all stock holders have incomes of less than $10,000 a year after taxes.

- A family with an income of less than $2,000 has little money to spare in these days of high prices. Yet there are 200,000 such families who own shares of stock in American corporations.

- There are about 4.9 billion shares in our publicly-owned corporations.

- The number of shares in the names of men is 1,763 millions, or 36.3% of the total. The average number of shares for all shareholdings in the names of men is 160, which indicates the comparatively small number of large holdings. Women own 27% of the total shares, or about three-quarters as many shares as men. For women the average number of shares per shareholding is 115. Joint accounts hold 7.5% of all shares; Trustees, etc., 11.3%; Institutions and Foundations 2.5%.

- The Brookings Report disclosed that the occupations of shareholders were broadly as follows:—

| Occupations | % of Total |
|---|---|
| Top Management . . . . . . | 4.6 |
| Middle management . . | 9.6 |
| Professions—doctors, etc. | 10.3 |
| Farmers . . . . . . . . . . . . | 4.9 |
| Shopkeepers and Traders | 3.9 |
| "White-Collar" workers . . | 9.7 |
| Salesmen, etc. . . . . . . . . | 3.1 |
| Skilled workers . . . . . . . | 6.3 |
| Other workers . . . . . . . . | 3.4 |
| Housewives, etc. . . . . . . | 32.8 |
| Retired people . . . . . . . . | 9.1 |
| Others . . . . . . . . . . . . | 2.3 |
| | 100.0 |

The Brookings survey refutes many popular misconceptions about who owns industry. In particular, it undermines one of Pravda's most cherished propaganda notions that the American economy is owned and operated by a small group of "Wall Street Capitalists".

**Need for Economic Education.**

**I sincerely hope that adequate resources will be made available to enable some organisation in your own country to make**

**a similar survey of the facts of share ownership in Australian public companies. For it is only by searching for the facts and then publicising them widely that we can banish fallacies and the misrepresentation of those who would destroy our way of life.**

Already the free enterprise system in the United States is spending very considerable sums in educating the people in the simple facts of capitalism and stock-ownership. In addition to the constant efforts of the New York Stock Exchange in these directions, it is **estimated that American industry is spending between $100,000,000 and $150,000,000 a year, not in advertising its products or the merits of any particular company, but simply in explaining how capitalism works; how competition benefits an economy; why widespread share-ownership is a good thing, how obsession with security can destroy security, and so on.**

**Organisation of the Stock Exchange.**

The price of a Stock Exchange membership is determined by how much a candidate will pay and the amount the owner will accept. The Board of Governors maintains complete control over admissions. To become a member, one must be a citizen, be sponsored by two members or allied members and be able to present proof of financial responsibility and integrity.

The price of memberships has ranged in recent years from $35,000 to $68,000. The initiation fee is $4,000 and dues are $750 annually.

The policies of the Exchange and its rules and regulations governing the conduct of members and allied members are set by a Board of Governors elected by the members. The Board exercises broad disciplinary powers. Indicative of the national character of the New York Stock Exchange is the composition of its Board of Governors.

The Board of Governors comprises thirty-three men, mostly members of the Exchange, but also including three representatives of the public, who have no direct connection with the securities business and who bring a broad non-professional character to the Board's deliberations. By this means, all sections of the country and many diverging viewpoints are represented.

**Administration of policies established by the Board rests in the hands of a salaried president and staff. The Exchange has about 1,150 employees, of whom 430 work on the trading floor.**

Operating the Exchange requires an annual budget of between eight and nine million dollars. This money comes principally from membership dues, direct charges to members and their firms, and from fees paid by corporations for listing their securities.

500,000 miles of telegraph and telephone wires connect the trading floor with 1,700 members' offices and many of those offices with 2,900 non-member correspondent firms.

**Listed on the New York Stock Exchange.**

There are nearly 2,500 issues of stocks and bonds listed on the New York Stock Exchange. They represent the ownership or the debt of nearly all the leading corporations in this country—American Telephone & Telegraph, du Pont, General Electric, General Motors, Montgomery Ward, Pennsylvania Railroad, Standard Oil of New Jersey, U.S. Steel—and on and on for a total of about 1,100 different enterprises.

How large do companies with stock listed on the Exchange bulk in the total American scene? These 1,100 companies earn about half of all the net profits after taxes reported by all U.S. companies, and they provide jobs for more than 11 million workers.

Corporations listed on the New York tock Exchange produce three-quarters of ll the automobiles and trucks made in nis country; ship about seven-eighths of ll the finished steel; produce threeuarters of all the electric power generted; handle more than 90 per cent. of all ne railroad traffic; refine 90 per cent. of ll the oil produced, and fly 90 per cent. of omestic revenue passenger miles.

What is the significance of the phrase: Listed on the New York Stock Exnange?"

At the time a company qualifies for sting on the Stock Exchange, it must be going concern and must have substanal assets and demonstrated earning ower. Great emphasis is placed by the xchange on such considerations as deree of national interest in the company, s standing in its particular field, the haracter of the market for its products, nd relative stability and position in its ndustry. The company's stock should ave a sufficiently wide distribution to ffer reasonable assurance that an adeuate auction market in the securities ould exist. The company should show arnings of at least a million dollars in the receding year and should have a miniaum of 1,500 stock holders, together olding at least 300,000 shares. Comanies listing today agree to publish their nancial condition quarterly. About 87% f the companies now listed publish earnngs statements every three months, 9 er cent. publish every six months. Only per cent. publish financial statements ut once a year.

Failure of a company to disclose all inormation specified by the Exchange may esult in its suspension from the list.

Corporations have found that raising ew capital is facilitated when their ecurities are listed on the Exchange beause investors are more attracted to a ompany that has met the requirements of the nation's largest organised securities market. And corporate management has found many concrete benefits, as well as prestige, in the broader market for their securities obtained on the Exchange, in a greater number of share-owners and in appearance of the company's name in the financial pages and stock tables of the nation's press.

**Ownership Capital.**

The growth of American industry, in the number of its owners, can be measured in terms of investors' willingness to share in the risks as well as the rewards of a free and enterprising business system. It was venture capital that financed the research which developed the automobile, plastics, the airplane, new metals and miracle drugs. The willingness to risk a loss in the hope of profit has supplied America with the venture capital which has opened new industrial frontiers and given us a standard of living unsurpassed in any place in the world.

Consider the last 75 years.

In 1875, there were only 163 stock issues on the New York Stock Exchange. In every year since the number has risen until today there are 1,500.

Fifty years ago there were sixty million shares. Today the total exceeds 4 billions!

Only twenty years ago there were 645 stockholders in American Telephone & Telegraph. Today there are more than 1,100,000! U.S. Steel then had 223,000; today it has 272,000. Standard Oil of New Jersey then had 127,000, today 254,000. General Motors in 1931 had 313,000 and today that company is owned by 482,000 stock holders.

The Stock Exchange offers the saver a broad selection for investment. He may buy shares in any of hundreds of distinguished corporations with long and honourable business careers, corporations which have paid their share-owners dividends each year for decades—corporations engaged in producing everything from steel mills to toy trains. There are many yardsticks for a good investment. No one of them alone is sufficient. But the ability of a company to pay dividends through panic, depression and war is no minor factor.

There is a risk involved in the purchase of any kind of property, whether it's a house, a share of stock, or a bag of diamonds. The market price of shares in even our strongest companies moves up and down from time to time. Corporations may earn good profits in some years they may also run into periods when the operate at a loss. And even when mos companies are prospering, some lag.

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**The Stock Exchange is the very hear of the American economic system. For i enables people to become partners in tha system.** Capitalism is a living philosoph which has grown up within our demo cratic form of government; it has sur vived minor wars and world war, seces sion, panics, depressions. Democracy i the hope of a free world today—and de mocracy's greatest ally is capitalism.

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