

The Evils of the Stock Exchange

By SENATOR ROBERT L. OWEN.

Answering your request for comments on senate 3895, "A bill to prevent the use of the mails and of the telegraph and telephone in furtherance of fraudulent and harmful transactions on stock exchanges."

Assuming that every member on the stock exchange is an upright man and that the rules of the stock exchange have none but the most virtuous intentions, nevertheless, under those rules men not members of the stock exchange can use the stock exchange for fraudulent and harmful purposes. This can be done as in the case of Rumeley securities. Representations of value were made as a basis of listing these securities, which were substantially false, and by which the public was grossly misled in the buying of these securities at a high figure which immediately afterwards went to a very low figure, resulting in defrauding the people of very large amounts of money.

Or as in the case of the California Petroleum company stocks, where outside parties controlling the stock through wide-spread publicity and by giving large orders through a series of brokers to sell the stock in certain quantities at certain figures above sixty, and to other brokers to buy stock in like fashion below sixty, misled the public by selling immense quantities of this stock in this fashion around sixty. (The evidence shows that they sold 368,000 shares in twenty-one days.) In this way the public was led to believe that there was a tremendous demand for this stock around sixty, that it had great possibilities of value, whereas as soon as this operation ceased and the public had absorbed a large volume of this stock, the price went down to sixteen and the people who had bought the stock on margin and borrowed money with which to buy the stock, were compelled by the ruinous drop in the market to sell the stocks back at a tremendous loss. These harmful transactions, if not fraudulent transactions, can only be made effective through the use of the postal service and the interstate telegraph and telephone lines.

The people have thus been defrauded through the use of the people's own postoffice services, and through the powers of charters granted by the people for interstate commerce.

No sane mind can deny that the people have a right to object to their postal service being used to defraud the people.

For that reason the committee of the house of representatives after the Pujo investigation, recommended a bill to prevent the use of the mails and of the telegraph and telephone in furtherance of fraudulent and harmful transactions on stock exchanges.

The wisdom of this act is beyond doubt.

The constitutionality of the act is absolutely certain.

The necessity for it cannot be denied.

We have listened with great respect to the representations of the officers and counsellors of the New York stock exchange, of the Boston stock exchange, and of the Consolidated stock exchange, and no good reason has been assigned why the people should not be protected against these harmful transactions.

It has been suggested that the state authorities should protect the people of the United States as far as they need protection. We reply that the state authorities having had their attention called to these matters have not sufficiently acted, that the stock exchange members appear to have more influence in preventing needed legislation than the people of the United States have in obtaining desirable legislation from the local legislature; that the local legislature in any event is not charged with the duty of protecting the people of the United States, and that the local legislature has not at its disposal the control of the most powerful method of preventing these harmful transactions, that is, the denial of the mails. Moreover, that state legislation would only control by its action a single stock exchange, and that the New York stock exchange, if controlled by the legislature of New York, could transfer its business to Jersey City with perfect facility, or to Montreal, Canada, as some of their members have suggested.

The New York stock exchange is the most gigantic gambling establishment in the world,

and has been one of the important agencies through which the wealth of the country has been transferred from the hands of the many to the hands of the few, exaggerating the dangerous evil to too great financial and commercial power in the hands of the few and endangering the liberties of the nation.

If the gambling on the stock exchanges were merely an honestly conducted lottery, it would be free from the most serious evil which afflicts this gambling in stocks and bonds through the stock exchange.

It is perfectly obvious that where a group of men are sufficiently powerful to expand credits through the banks and trust companies, that they can create a bull market, and make the price of stocks steadily go up, and mislead other men into the belief that it is a good thing to buy these stocks in order to sell at a higher price.

It is equally obvious that when the stock and bond market has been thus advanced to a high price and the sagacious and powerful few have unloaded their stocks and bonds on an advancing market, that the same group can sing a different song and lead the chorus in the opposite direction and do it so adroitly that it is impossible to fix a criminal responsibility upon them.

They can constrict credits by saying that "the market is too high," "that the market has an unhealthy tone"; that "there has been too great an inflation of credit"; that "some liquidation is necessary"; "that speculation has gone to an excess"; that "prudent men will not recognize these high values in stocks"; and under such advice a steady contraction of loans can take place, a bear market absolutely assured with a shrinkage of stocks and bonds and squeezing out all of the people who have been induced to buy stocks in the previous bull market. In other words, the stock market can be squeezed by deliberate, thoughtful contraction of credits, which will of necessity result, as a certain banker once said to me, "In making the fellows let loose that can't hold on."

This is a very simple process. It is elementary. It is a kindergarten matter of high finance, but results disastrously to thousands of people who have been led into the speculation in stocks and bonds on the stock exchange.

The representatives of the stock exchanges insist that speculation is of great value to the establishment of a constant market for stocks and bonds, that the New York stock exchange furnishes a great national need; a market where you can always sell stocks and bonds for cash; that short selling is of importance to prevent too great fluctuations on the market downward, and that long buying is of great value in preventing too great fluctuation upwards.

Granting for argument sake that it is a debatable question, whether speculation on the stock exchange is a good thing or a bad thing, no man should contend that the use of the stock exchange for "fraudulent or harmful purposes" as I have pointed out above, is a good thing.

The stock exchange is undoubtedly valuable as a market place where stocks and bonds may always be sold for cash, but the stock exchange would serve a more useful purpose if its transactions were safeguarded by sufficient governmental supervision to prevent "wash sales" (which means selling the stock with one hand, and buying at the same price with another hand for the purpose of deceiving the public into the idea that there was an honest demand for the stock), or "manipulation of stocks" such as above described in the case of the California Petroleum Co. stock.

Some men expert in regard to the transactions on the New York stock exchange have insisted over ninety per cent of the transactions are "wash sales" or "manipulated sales," or "substantially insincere speculative sales," intended to attract the outside public into this charming, delightful, modern, Monte Carlo. In Monte Carlo however they take their percentages without artificial control of the wheel against the public.

The stock exchanges of the country have powerful agencies with which to prevent any legislation controlling them, and will resort to the most ingenious arguments why they should be let alone. It is of the highest importance

therefore, that the patriotic press of the nation should create public sentiment in favor of a rational, thoughtful, governmental supervision for the protection of the public. This power can be exercised to the very great benefit of the legitimate processes of the stock exchange, as an honest, reliable market place for stocks and bonds. No thoughtful man will desire to interfere with its legitimate processes, but on the contrary would much prefer improving the opportunity of the stock exchange to render service in its legitimate field, as a national and international market place that can be relied on with confidence.

RURAL CREDITS AND FARM-LAND BANKS

The subject of rural credit is one of vital importance to the continued and increasing welfare of our country. There are twelve million farmers in the United States. They add each year to the national wealth nearly eight and a half billion dollars. Their indebtedness is approximately six billion dollars, on which the annual interest charge is over five hundred million dollars. The farmer pays an average interest rate of eight and one-half per cent, a considerably higher rate than is paid by industrial corporations, railroads and municipalities. At the same time the security which the farmer is able to offer in the land on which he raises his crops is quite as stable as that offered by those corporations.

The farmer needs money to improve his property, to increase its productive power and to carry him over the time when his crop is maturing. He has abundant credit resources, but the methods open to him in this country for turning his credit into cash are crude, inequitable and costly. The farmer, as a result, has to pay too much for his money. From this condition the whole country suffers.

Last year a commission, appointed by the Southern Commercial Congress and receiving the endorsement of the United States senate, made a study of the systems of rural credit in operation in European countries. The commission has not yet made its formal report, but a bill has already been introduced in congress by its chairman, Senator Fletcher of Florida, for the establishment of a national farm-land bank system.

The bill provides for the establishment of national farm-land banks of two kinds—joint stock banks and cooperative banks. The chief distinguishing characteristic of the cooperative bank is that all its patrons share in its profits in proportion to the amount of business they do with the bank. The profits of the bank are apportioned, first to the stockholders, the rate of dividend to them being equal to the prevailing rate of interest in the community (but in no case exceeding the legal rate of interest in the state); and second to the patrons of the bank.

The main purpose of the farm-land bank will be to provide the farmer with money for the development of his farm properties. It will loan money for any one of three purposes: To complete the purchase of a farm; to improve and equip the farm; and to pay off a mortgage on the farm. The loans are to be made for not more than thirty-five years, at a rate of interest exactly one per cent higher than the rate at which the bank can get the money in the money market; secured by a first mortgage on the farm property; with a compulsory provision for the repayment of the principal of the loan in annual or semi-annual instalments. Loans are to be made only on land within the state in which the bank is situated.

The money which the bank lends is to be obtained in three ways: From its capital and accumulated surplus, from deposits, including deposits of postal savings funds, of which the farm-land bank may be made a depository, and from the sale of national land-bank bonds. These bonds are to be secured by the mortgages given by the farmers as security for the loans to them.

The farm-land bank will make the credit of the farmer more available by bringing him into touch with the money market as he never could come into touch with it unassisted. It will strengthen his credit by combining it with that of the other landowners of his neighborhood—for the underlying security of a series of land-bank bonds will naturally comprise a group of mortgages on many different properties. It will insure to him a lower rate of interest than he would be likely to obtain anywhere else, for the bank can charge only one per cent more than the bonds sell for, and bonds based on such ex-