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INTERVIEW WITH
MR. SEYMOUR L. CROMWELL
PRESIDENT OF THE NEW YORK STOCK EXCHANGE

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NEW YORK STOCK EXCHANGE

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SEYMOUR L. CROMWELL

PRESIDENT OF THE NEW YORK STOCK EXCHANGE

It has handled billions of shares in its century of existence, he says, and always with a voluntary discipline in control which bars bucket shops and dealings with them—Legislation which would raise the ethical standards would be welcomed—Criticises the politicians who would make it appear that the Exchange is the barracks which houses the men of get-rich-quick brigade.

By CHARLES W. WOOD

"IF the people of the United States only knew what is back of the present agitation against the New York Stock Exchange the agitators would soon be silenced. Just now, however, the agitators are relying upon the people's ignorance of what the Stock Exchange is. It is associated in their minds with a mythical monster they have come to know as 'Wall Street.' They think of it as a high priesthood of 'the interests.' They confuse it with all the stock-swindling operations of the get-rich-quick brigade and with the plain highway robbery of the bucket shops. The public is rightfully enraged over these swindles, and this is giving the crookedest bunch of politicians in the country the big opening they have been longing for. Let these crooks succeed in their conspiracy and the nation's business may be thrown into chaos, but politics will bloom as it never bloomed before."

This was not the line of talk which I had expected to hear from the President of the New York Stock Exchange. But Seymour L. Cromwell is not the type of man I had expected to find in such a place.

He is young. He is energetic. He avoids personal publicity as far as possible, but he is aggressively outspoken in his statement of any question which it becomes necessary to discuss. He believes devoutly in business. He believes in buying and selling, and believes that it is vitally necessary to the Nation's welfare that there shall be ample opportunity at all times for the people to turn their cash into securities or their securities into cash. But he believes in other things as well. When he spoke of clean government it is quite evident that he is not using the phrase merely to cloak a special plea. He believes in clean government for its own sake. He is known among his associates as a man of extremely progressive convictions, who keeps in touch with the most advanced thought. He is a constant reader of the liberal periodicals and the last man in Wall Street, apparently, to set up the cry, "Let well enough alone."

"The Stock Exchange," he explained to me, "is just a market. That's all. It serves two main purposes. It provides a place to sell stocks, thus assuring the capital necessary for projected enterprises, and it registers the current price of these securities through the widest possible functioning of the law of supply and demand.

Function of the Exchange

"It is conceivable," he explained, "that you own a large part of the moon. But, if so, it isn't worth anything to you, for you can't sell it; and while the moon may be intrinsically valuable, its money value is only what some one is willing to pay. You may own diamonds or gold mines or anything else, and if you can't get in touch with those who want to buy such things you will be in exactly the same fix. If you can only find one possible purchaser you will be at his mercy in the matter of price. In order to get the fairest possible price for your commodity you must get it to a general market, where the largest

possible number of potential purchasers will bid against each other. The market doesn't fix the price, but it registers it and protects buyer and seller against hold-ups.

"Now, the stock market is like other markets in this respect. When the first steam railroad was projected a great many conservative persons thought it wouldn't work. They saw the demonstrations of the 'Iron Horse,' and mechanically it was beyond criticism. But who was there, they asked, rich enough to build a lot of such expensive machinery and lay steel tracks across vast stretches of country? The answer was found in the organization of stock companies instead of the mere copartnerships which had been the rule before. No one man and no small group had sufficient capital to launch these enterprises, but many thousands, each contributing a little, could do it easily.

"But the new situation made it necessary that there should be a general market in which these securities could readily be bought and sold. More than a hundred years ago, within a stone's throw of the present Stock Exchange, twenty-four New York brokers united to form such a market. That was the beginning of the New York Stock Exchange. From that time on the big problem before the Exchange has been one of protecting the market from unscrupulous schemers and from worthless or fraudulent securities. Obviously, a market which was crooked could not serve the purpose intended. Just as obviously, since one stock certificate looks very much like any other, some means had to be employed to assure potential buyers that stocks offered for sale were bona-fide shares in real enterprises, not fraudulent paper put out by crooks or the capitalized dreams of overoptimistic promoters.

In Existence a Century

"The story of how the delicate mechanism of the present Stock Exchange was evolved through these

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hundred years to serve this purpose is a long one; how stocks were eventually 'listed;' how the character and conduct of each member firm came more and more under scrutiny; how drastic rules were adopted prohibiting not only illegitimate practices but many practices which non-member firms could engage in quite legitimately, and how from time to time new evils arose, to be faced and corrected immediately by the Board of Governors instead of waiting, as we must wait for the correction of political evils, until some law can be forced through a Legislature and upheld by court decisions.

"There have been outcries from time to time against the Stock Exchange; but whenever it has come up for impartial investigation the investigators have been amazed at the efficiency of this machinery. When Mr. Charles E. Hughes was Governor of New York he appointed a commission to carry on a searching investigation, and the Chairman of the commission, Mr. Horace White, after making one or two slight suggestions, reported: 'I wish to state that after making a most painstaking inspection I would not be willing to place an impediment the size of the smallest pebble in the cogwheel of so magnificent a machine as this which has been established by the New York Stock Exchange.'

"So delicate is this machinery that millions of dollars' worth of securities can change hands almost instantaneously. All business on the Exchange is done by word of mouth. There are no written contracts. A mere word, 'Sold' or 'Bought,' closes the trade. A market which had to wait for the drawing up of legal contracts would be of no service at all. But this marvellous facility through which the New York Stock Exchange has kept pace with the industrial development of America did not just happen. It was the work of master minds of business, who realized the necessity of maintaining the strictest ethical standards through the promptest and most rigorous discipline.

"It is said that the Stock Exchange is arbitrary and tyrannical. In a sense it is. Its sense of obligation to the public need has made it so. Its members, now numbering 1,100, subscribe to this discipline. It is self-imposed. All recognize that such an institution, if it is to serve the purpose of marketing stocks as readily as stocks must be marketed if our country's development is to go on apace, must not be hampered by long-drawn-out arguments and appeals.

"I can hardly think of a perfect parallel," said Mr. Cromwell, "but the situation may be compared in a way to the self-imposed discipline of a baseball game. The rules are arbitrary and they are tyrannically enforced; yet it is to everybody's interest that this self-imposed tyranny shall proceed. Three strikes is out, and there can be no appeal. Now, if the baseball players were only licensed by the State—if they could continue at the bat until they had had a trial by jury, and if the execution of judgment could then be stayed by appeal—why, it is barely conceivable that some injustice inflicted by some umpire upon some particular player might eventually be corrected. But what do you think would happen to the game?

"As it is, members of the Stock Exchange are now committed to strict observance of the Exchange's rules. They cannot engage in bucketing and they cannot have dealings with bucket-shop firms. If any improper use is made of our ticker service our wires may be withdrawn at once, which practically puts the broker in question out of business. When millions are changing hands in a moment one does not have to be crooked very long to do a lot of damage. An unscrupulous speculator might take his chances with the law, but he will take few chances with an organization which can put him out of business the moment he is caught in a crooked act.

"But just suppose," Mr. Cromwell added, "that the alleged reformers who are making such a noise just now really had their way. Suppose that all

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stocks instead of being listed as they are to-day, subject to intense scrutiny as to the condition of the company and its earnings, scrutiny by economic experts guided by standards much more strict than the law has ever exacted, were licensed instead by some political commission. The commission might be honest. But having inspected a stock and given it an official O. K., that indorsement could be used by unscrupulous dealers to fool unknowing investors. And suppose that brokers instead of being subject to our 'arbitrary' rules were licensed by the State to continue in business until their licenses were revoked; and suppose the Stock Exchange were compelled to incorporate and to give the use of its wires to all licensed brokers until such time as some illegal conduct could be proved against them in the courts. What would happen to trading would be very similar to what would happen to the ball game which I mentioned. But trading is not a mere game, and the results would be disastrous to the economic life of all America. The people generally do not understand this; but industrial expansion depends upon ready capital and ready capital depends upon an adequate, untrammelled and strictly ethical marketing of stocks.

Voluntary Discipline

"Now," Mr. Cromwell added, "if you want the bucket shop established as a permanent institution, if you want to destroy all morale in business, if you want to have inexperienced people tampering with the very nerve centre of the Nation's economic life, destroy the system of voluntary discipline which exists here to-day and substitute some system of political control. But remember if you do this that you will leave honest investors almost utterly unprotected."

"But just where does the political graft come in?" I asked. "Isn't it conceivable that a State commission controlling the brokerage business might be honest?"

"Quite conceivable," he said. "In fact, quite probable. But do you know anything about the way honest politicians give and receive recommendations? I have some of them among my own friends and I happen to know. I have seen letters indorsing incompetents and even suspicious characters signed by some most respectable gentlemen in politics; and it has been explained to me that the man in question had asked for the letter and 'could not well be refused.' I assure you, if you don't already know, that getting a license from a political commission is quite a different process from getting or retaining a seat on the Stock Exchange."

I wanted an illustration and I got it—hot off the bat.

"Not many months ago," said Mr. Cromwell, "the Board of Governors of the New York Stock Exchange decided to move its wire service from a notorious non-member office. The business practices of this firm did not conform to the high standard required by the Stock Exchange. But from the day these wires were removed to the day the firm failed there was continuous and extraordinary pressure on the part of people in high places to have this wire service restored. Under a system of political control the Stock Exchange would undoubtedly have been compelled to rescind its action and the house would have been enabled to go on robbing the public indefinitely.

"But there is another point, perhaps more important. Can't you see the chance that such a situation would give the politicians? Crooked firms could be carried along in return for campaign contributions, while reputable firms could be blackmailed under threat of proceedings to get their licenses revoked. Not only is the game a bigger one than has ever previously been thrown into the political arena but the field is one in which they would almost surely work incalculable disaster to the country. In the old days, when they were selling protection to gamb-

ling houses, the situation was bad enough; but people going into a poker palace or a faro joint were under no misunderstanding concerning the nature of the place. They went there to gamble, not to make legitimate investments. Under the proposed system all that protection would be taken away. So long as the broker could retain his license—so long as he could find a Judge to enjoin the commission from taking it away until endless arguments had been carried from appeal to appeal—the innocent investors would continue to be taken in."

"And do you mean that they are not taken in today?" I asked.

The Recent Flurry Record

"There is small chance of it," he said, "if they are dealing with member firms of the New York Stock Exchange. I don't mean that the Exchange is perfect. We have discovered questionable methods in our midst from time to time and we have thrown them out. But so efficient is the machinery which has been built up through the century that only twenty-one firms all told have been expelled from the organization. During the recent flurry, when sixty financial firms went under, only three were members of the Stock Exchange. Two of these were unimportant; the other was forced to close by the Stock Exchange itself when it became apparent that it was so badly involved that it could not do justice to its customers.

"Of all the non-member houses that failed since November 29 five had made application for our ticker service and had been refused, thirteen had at one time received such service, which was subsequently withdrawn, and only four were receiving our service at the time. This is a record of which we need not be ashamed, but still more stringent rules have since been adopted to make similar failures impossible in the future. We reached the conclusion, for one thing, that firms sometimes became involved

beyond their resources through failure to take off a trial balance at sufficiently frequent intervals, so we made it compulsory upon all member firms to submit a balance sheet at least once a month. Exchange members doing a margin business are also required to answer a questionnaire as often as twice a year."

Mr. Cromwell denied that the Exchange was opposed to all "blue-sky" legislation. Any legislation, he said, which could actually raise the ethical standards of the brokerage business would be welcomed by all members of the Stock Exchange.

"What, for instance?" I asked.

"That's just it," he said. "It is hard to think up a law that would make people honest. We do not oppose laws, for instance, against bucketing. There are such laws on the statute books and we wish they were enforced. But the real enemy of the bucket shop—the organization which has machinery which can and does put bucket shops out of existence—is the New York Stock Exchange. Bucketing is now limited to non-member houses without any economic standing—a fact which could be easily discerned if investors would only investigate. But once destroy the machinery we have built up for the protection of the public, and shady practices will creep in everywhere."

Bucketing was defined by Mr. Cromwell as betting against the market. The alleged broker pretends to carry stocks for a customer, but doesn't actually do so. In former days it was his custom not to do anything at all; now he attempts to cover his tracks by the use of a dummy account reversing the transaction entered upon. In all selfishness the Stock Exchange members would oppose such practices, and Mr. Cromwell did not claim any special virtue for his opposition. But so many investors, he said, do not understand this that they are quite likely to enter a bucket shop thinking they are in a broker's office.

"It should not be difficult," he said, "for an honest investor to discover whether or not the firm he is

dealing with is doing a legitimate business. He will know, at least, whether the firm does or does not belong to the New York Stock Exchange; and if it does not, and still offers 'advantages' which member firms do not enjoy, it seems that any man with common sense would become suspicious.

"If a non-member house, for instance, doing business with the public at the regular commission, advertises that its orders are executed on the New York Stock Exchange it is well to look into the situation. That commission is definitely known. It is $7\frac{1}{2}$ cents per share on stocks selling below \$10, 15 cents on those selling between \$10 and \$125, and 20 cents on those selling for \$125 and over. If these houses live up to their statements, they must pay to some New York Stock Exchange house exactly the same amount of money for commissions which they receive from their customers.

"There are only two ways in which a commission house makes money. One is from commissions. The other is from interest. There can be no profit from commissions here, so how about the interest? New York Stock Exchange houses usually charge their customers one-half of one per cent. more than the interest they pay to the banks; but these non-member houses in the majority of cases advertise that they will charge only a fixed rate of interest. When money is active, then, if these houses actually buy the stocks in question and actually carry them for their customers, they will lose money rather than make it on the interest. If they make nothing on commissions and lose on the interest, how do such houses get along honestly?"

"How?" I asked.

Strict Prohibitions

"I can't answer," said Mr. Cromwell, "if they actually carry out the transactions as represented. If, on the other hand, they should sell the stocks which they are pretending to carry for their cus-

tomers they might benefit by the money deposits which the customers have made with them; but transactions of that sort are strictly prohibited by the rules of the New York Stock Exchange and no reputable broker will engage in them."

"But suppose the broker does not advertise that orders are executed on the New York Stock Exchange. Suppose the stocks are not listed on the Exchange—curb stocks, for instance. How is one to know that he is getting a square deal then?"

"Stocks may be good," said Mr. Cromwell, "even if the banks are not at present willing to lend money on them. But if you buy stocks on margin—if, for instance, you are required to pay out only \$15 on every \$100 of value represented—it stands to reason, if the stocks are actually bought and carried in your name, that some one has to put up the remaining \$85. If the banks won't do it, who will? The broker may pretend that he does it, out of his own capital; but did it ever occur to you how much capital would be needed to do, say, a million dollars' worth of business? Exactly \$850,000. If, on the other hand, the stocks in question were stocks upon which money could be borrowed from the banks a million-dollar business could be carried through on \$100,000 capital.

"Once again. If the broker sells the stocks which he pretends to be carrying for his customers, he can get along with relatively little capital. That is, if he is lucky. But it isn't business. It is simply betting against the market. Any New York Stock Exchange house guilty of such an operation would be immediately disciplined.

"If a man has faith in a particular stock," Mr. Cromwell added, "there is no reason why he shouldn't buy it even if the banks do not yet consider it good security. If he knows something about the enterprise and is willing to stake his judgment against that of the banks it isn't gambling for him to buy up all the stock he can pay for. It is simply taking a chance

in a business way; it is honest speculation, which is a vastly different thing from gambling, however much the two are confused in the public mind to-day. But if he attempts to buy such stocks on margin the case is different. If no one will lend money on the stocks and the broker does not put up his own capital it would seem very much like a gambling game in which the cards are stacked against the customer. Actually to buy such stocks, it seems that they must be bought outright."

Mr. Cromwell believes that the speculator has an important part to play in business to-day. He never says the "mere speculator." So long as capital is necessary, he says, particularly daring enterprises will depend for their success upon particularly daring capitalists. United States Steel and Union Pacific were once weak and uncertain stocks, but some adventurers had faith in them and they have become the lords of the market. An economic calamity was averted in 1914, he pointed out, simply because a little group of big financiers had courage enough to take a chance.

No Place for a Poor Man

But for the small investor, the man with one or two hundred dollars to invest, Mr. Cromwell urges a different course. Such men can hardly hope to turn the tide of industry, and if they do lose their small savings the result will be disastrous. Let such men invest, he says, and he has led a movement in the Street urging that special attention be paid to the small investors, even the man who is out to buy only a single share; but he cannot see his way clear to advise anybody with a few hundred dollars to buy on margin.

"Then you don't claim that there is an even break for the poor man down here, do you?" I asked.

"A hundred dollars never was equal to a million," he answered, "and a business man must recognize this economic truth. A man with \$100 may be made

to feel like a millionaire in a bucket shop, but not for very long. I don't know of any legitimate way to give him such a feeling. But we do owe him protection. We owe him much more protection than we owe the big and experienced investor who is more able to look out for himself. The New York Stock Exchange is determined to give him that protection. We don't intend to let up until the last bucket shop is exterminated. Each succeeding decade finds us nearer to this goal. It finds the gamblers more and more isolated and the general practice elevated to a higher ethical level. Unless our organization is tampered with by greedy politicians or by bungling statesmen we expect to achieve even greater results. But the present situation is full of peril—peril to industry and business, peril to innocent investors, and special peril to those who had hoped that America was freeing itself from the domination of crooked political machines."

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