

*Ideas and Power:
The Double Helix*

An Address By

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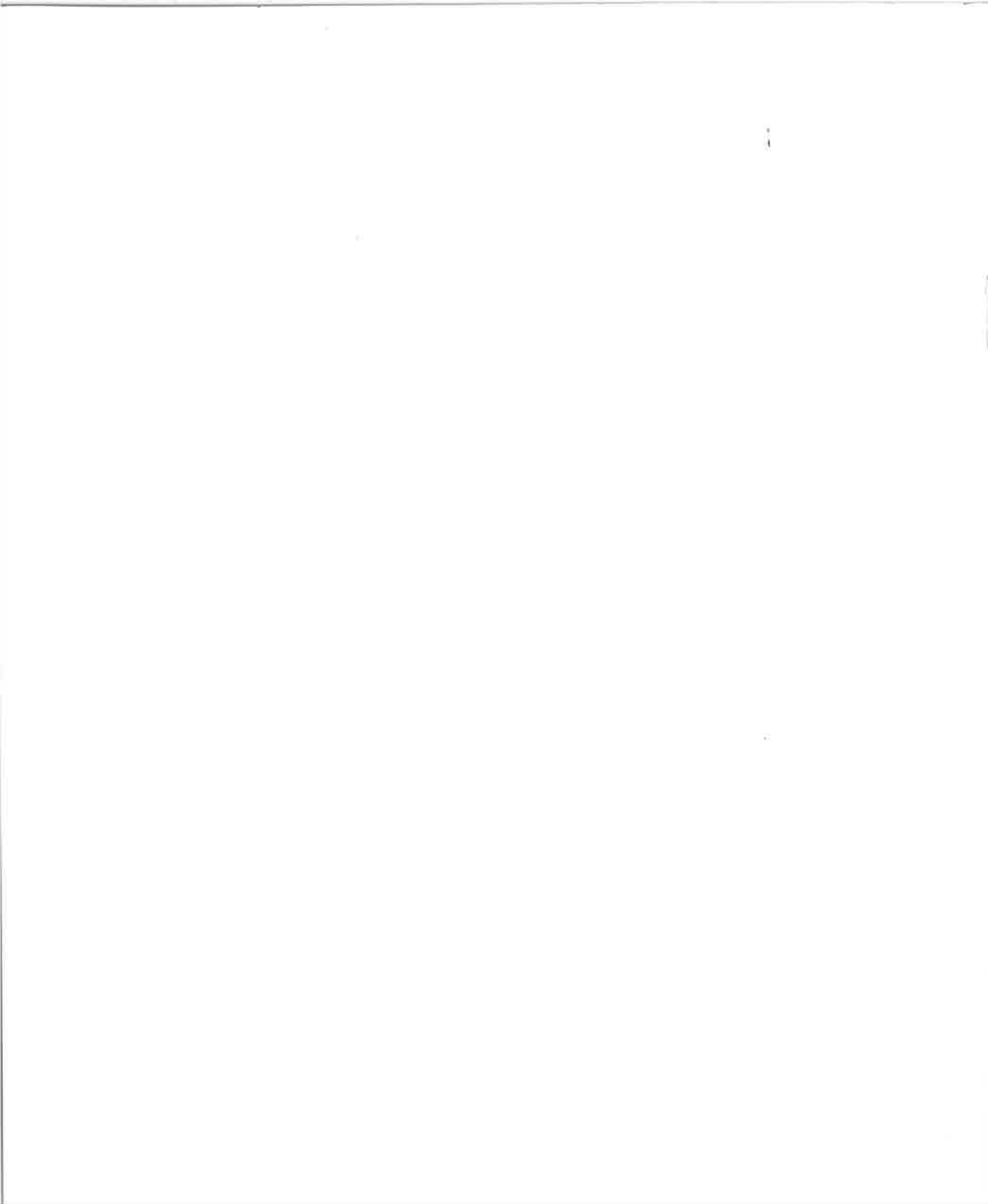
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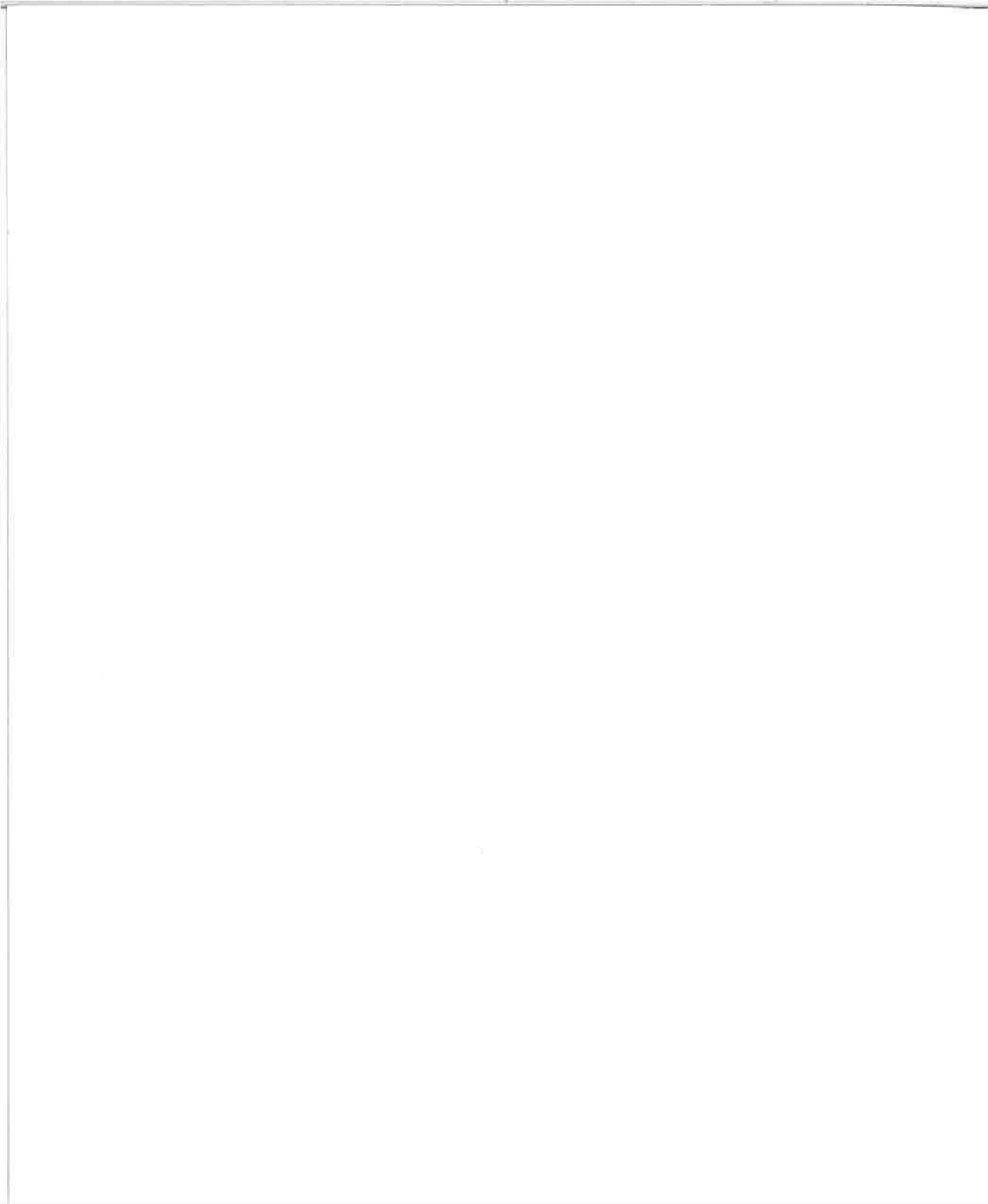
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There is, I submit, something profoundly American in dating our centennial celebrations from 1776, rather than 1781 or 1783.

1776 was after all but the date of an unsigned declaration of some rather questionable ideas by a decidedly ad hoc collection of landed gentry, prosperous merchants, eager bankers and ambitious lawyers.

As best historians can now reconstruct, the Declaration of Independence went virtually unnoticed here and left the British Crown thoroughly unimpressed – an interesting commentary on the Establishment's sensitivity to new ideas.

But we shouldn't be too hard on George III. I would guess few of us would have dated the birth of Vietnam from the first declaration by Ho Chi Minh, let alone The People's Republic of China from the early declarations of Mao Tse Tung.

By contrast, Cornwallis' surprising defeat at Yorktown in 1781 marked quite precisely the time when we actually achieved our independence; and the Treaty of Paris in 1783, however vague in spots, gave formal, juridical recognition to the creation of a new nation state.

Why then do we insist on dating something as significant as our nation's birth differently than we date even our own birth, let alone those of our children. Surely gestation is more precise for humans than for nations.

And yet, against logic and precedent, we date our centennials from our conception rather than our birth. Is it because we value that conception so highly? Or is this Bicentennial yet another historical deception – conceived by politicians and delivered by the press?

We should be cautious about leaping for the romantic answer. Dignify that Declaration of Independence and you will magnify the ideas in it. Are we in 1976 – you and I, not them – ready to affirm “that all men are created equal and endowed by their Creator with certain inalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness”?

I say yes, albeit hesitantly. I happen to believe that like no other

nation on earth we are struggling — yes and stumbling, but still struggling — to give that demanding idea meaning. I agree with the French journalist Revel who says, America — not the Soviet Union or China or the rest of the Socialist Bloc, not the Third World and most assuredly not Western Europe — but America is where the revolution continues.

Unfortunately, the issue is not free from doubt.

For if you feel uneasy about that commitment to the equality of man, consider what the Imperial American Presidency of the last 20 years has done to the second great idea in the Declaration of Independence, the Right to Revolution.

Try to square our post World War II version of Pax Americana with Jefferson's words "That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its power in such form as to them shall seem most likely to effect their Safety and Happiness."

Can you imagine the "40 Committee" meeting in the basement of the White House with that Right of Revolution inscribed legibly on the wall as they planned covert operations to overthrow legitimate, new regimes in Iran in 1952 and in Cuba in 1962 and in Chile in 1973?

The awful impact of power on even the best of ideas! The double helix. The abiding struggle between ideas and power. The one no less important than the other. Both inextricably intertwined. Did we win because we were right or were we right because we won?

Dr. Kissinger says one cannot be wise in the ways of love and remain a virgin. If that is meant to pass for wisdom, I prefer Alice in Wonderland. ' "Would you tell me, please, which way I ought to walk from here?" "That depends a good deal on where you want to get to," said the Cat.'

Here in this imperiled university on this our Bicentennial year, I suggest the time has come to reexamine those ideas of 1776 to which

our forebears pledged to each other their lives, their fortunes and their sacred honor. Here at this great University which has meant so much to New York City they tell me ideas still count — even though the mode of discourse is scarcely Socratic and may at times sound like Jimmy the Greek making book on the Virgin Birth.

Since I hope to escape from this hall more or less in one piece, my proposal is to discuss the double helix of ideas and power as applied to one field in which I pass for something of an expert — the trading of securities. I am not a stockbroker, nor am I an investment banker. I am a securities dealer — a dealer in a game where the table stakes put our firm's entire capital and more at risk each day. Imagine getting up each morning, five days a week, and putting at risk some \$30 million of your own and perhaps another \$70-90 million of borrowed funds.

Legend has it that about 180 years ago some raucous hustlers who had taken to gathering under a large buttonwood tree downtown for the purpose of trading stocks hit upon the idea — a brilliant idea — that the better way to do business was to form a club or association whose members would accept two self-imposed burdens. The first was to trade only with each other. The second was always, but absolutely always, charge all customers the same agreed upon commissions. In short, exclusivity and price fixing.

Forty years later, they had another brilliant idea—move indoors and call themselves the New York Stock Exchange.

And it worked. Did it ever work! A handful of brokers took on nothing less than the self-appointed role of being the exclusive stock exchange for the greatest industrial society the world has ever seen. Talk of taking the bull by the horns — they had a grip on horns, hide, tail and everything else worth grabbing!

The originators' idea was simplicity itself — go for the whole bundle. Whatever it takes, see to it that all orders to buy and all orders to sell are brought into one room where the members can more

or less match orders — shorting stock when necessary, positioning stock when necessary — but keep the orders coming in. Of course they charged commissions to the sellers and to the buyers and they often made quite a bit more when they filled the gaps. Is it any wonder that by 1929 a seat on the Stock Exchange sold for \$625,000?

No other stock exchange has been so successful — or so profitable for its members — though many others have tried. As its competitor and severest critic, I tell you in all candor it took brains, dedication and the willingness to take risks to pull it off. They did it, I believe, by being willing to move with the times, by bringing in more capital, more staff, taking more space — by being open to new ideas — first the telegraph, then the telephone, then best of all the ticker tape and margin accounts — and then?

Well, then came the Crash. And what a crash! There had been other crashes, but none like this. This time around everybody got burned. In the debacle that followed the President of the New York Stock Exchange went to jail and the Congress created the Securities and Exchange Commission. Henceforth the issuance and trading of securities would be regulated, not by the Titans of Wall Street, but by the United States government.

Oh, there were plenty of camouflaging homilies about self-regulation, but the realities were that the jury had brought in a verdict of guilty as charged. The self interest of the club was no longer to be accepted as the same as the public interest. Somewhere between the Buttonwood Agreement and the Crash the good ideas of the originators had been overwhelmed by the abuse of power by the operators. In the future, said William O. Douglas, the Commission would keep a well oiled shotgun behind the door.

When analyzing what has been happening recently on Wall Street, it is important to realize that the extraordinary success of the Stock Exchange greatly benefited New York City — the brokers, the bankers, the lawyers, the accountants, the printers and many others. In 1776

New York had a total population of 33,000. By 1876 it had 1,000,000 and was the financial capital of the nation. Directly and indirectly the success of the Stock Exchange over the years has created 10,000's of jobs and 100's of millions of new wealth for the home town.

It is against that background of growth, success and power that the Weeden family, California born and bred, came to challenge the New York Stock Exchange. My father, not having had the advantage of advanced economics or finance at Baruch College, had the effrontery to announce there was still room for competition in America — even in the trading of listed securities. The Weedens set out to demonstrate that the New York Stock Exchange was not then and had never been a natural monopoly, but simply a man made monopoly — a monopoly whose vast power needed the balance of new ideas.

The Weeden formula in the 1950's was as simple and direct as the old Buttonwood Agreement had been in the 1800's. We — two of my brothers and I had joined my father after the War — went to those brokers who were not members of the Stock Exchange and to banks, insurance companies, pension funds, mutual funds — most of whom were longstanding customers of ours in bonds — and told them we would deal directly with them in listed stocks as well. What the customer wanted to buy, we would sell. What he wanted to sell, we would buy. Because we were dealers, not brokers, we would not charge commissions, but would look for our profit in the spread between the bid and asked. We did it by using our money to maintain an inventory of the prime stocks. It was all cash and carry. No frills. But our way was considerably faster and cheaper and more efficient for the professional customer — albeit rather risky for us.

Our customers liked the service and the firm began to expand. Offices were established across the country and in London. Our volume of business grew and grew. Suddenly the Stock Exchange realized it had real competition — for the first time in more than a hundred years. When you have gotten used to 100% of the prime

business, the loss of even 5% is frightening. Today we have about 12% of the Stock Exchange volume in the 250 blue chips in which we compete.

Predictably the Stock Exchange tried to fight us off, not by lowering their commissions or speeding up their service, but by poor mouthing us. When that did not work they passed a rule which forbade their members dealing with us.

The commercial slander and libel we shrugged off. But that out and out boycott seemed a bit much, so we began regularly speaking up and speaking out – and calling on the SEC, the Antitrust Division and the Congress – asking all who would listen whether it was healthy to reinforce that vast monopoly through fixed commissions and rules against dealing outside the monopoly.

Just to keep the record straight, I want to emphasize that us good guys from California did not start the fight. The bad guys from New York did that. What we did was done in self-defense. And you know the old saying about the best defense being a good offense!

Well, 10 or 20 years later, depending how you date these struggles, the fight is just about over. The good guys have won. All of us! In May of last year the SEC, urged on by the Congress and the Justice Department, decreed the end of fixed commissions and in December, the prospective end of the boycott.

Looking back, we have no regrets. There is nothing like a good battle to fight off the boredom of middle age. And the prospects look promising. Instead of the outmoded club with its outdated equipment trying to hang on to all the business through price fixing and exclusivity, we now have the opportunity, together with New York and the regional stock exchanges, to develop a new national market system using modern communications and high speed computers which can handle 50 to 100 million shares a day at about 20% of the old unit costs.

Of course some fear all this change. They fear that the new national

market system could mean the demise of the New York Stock Exchange. **Hardly! The irony may well be that the Stock Exchange will be the biggest beneficiary of the new national market system.**

But, you ask, what is so challenging about trading more for less? Let me tell you as plainly as I can because it relates as directly to you as it does to me.

For the first hundred years in this country the balance between ideas and power was good – not because the ideas were necessarily profound, but because the power was rather minimal – and what there was was spread around. With 90% of the population on the farms and only 10% in the cities, most everybody – blacks excluded – owned something. The means of production were primarily the family farms and rather small, family owned factories.

The Civil War marked the change of all that. As the industrial revolution grabbed hold and technology advanced, fewer and fewer owned anything, let alone anything resembling the means of production. Year after year as the farmers' children streamed to the higher paid factory jobs in the cities, they gave up any voice in how this country was to be organized and operated. The immigrants, of course, arrived with nothing except their ability to labor for less. Those who had the power set out to accumulate still more power. Our first Centennial, in 1876, was a travesty of the ideas of 1776 – with worse still to come.

The last quarter of the 19th century and the first three quarters of the 20th century have been a period of unparalleled growth in this country's power – and regrettably in the concentration of that power. As we proudly celebrate our second Centennial we ought have the intellectual honesty to realize that industrially, financially, politically and militarily we have concentrated into fewer hands more power than those ideas of 1776 ever contemplated or were ever meant to balance.

So viewed, I submit to you, the real challenge of the Third Hundred

Years will be to redistribute that enormous power into more hands. I am not saying big is bad. Neither do I say that small is beautiful. But I do believe we have got to try to spread the power around.

Most emphatically I have no interest in trying to solve the abuses of concentrated power by nationalizing industries. Nationalization means more concentration, not less. The lesson I learn from the bribery scandals of 1876 and from the bribery scandals of 1976 is that the essence of corruption remains the same — in short, those in businesses closest to the government are those most prone to bribery. I simply cannot believe that Lockheed successfully concealed from all the many Pentagon, Treasury and State Department personnel involved in those foreign sales of military hardware that massive bribes were being paid.

No, the answer is not nationalization, nor is it more government regulation. They both seem to yield the same result, the concentration of too much power in too few hands.

No, I think the answer is in that old, unspoken premise of the Declaration of Independence — Life, Liberty and the pursuit of Property. In short I believe that with more people owning a piece of America, pursuing Happiness and Profit, the indignities of corporate and governmental corruption just might be diminished. If we can find a way to attract every factory and office worker to investing in some means of production from which he can profit, we just might confound the prophets of doom.

Clearly the job is to put some flesh and blood back into capitalism. I say the way to do that is to permit all Americans to own stock directly rather than relying so heavily on vast, faceless institutions — be they banks, insurance companies, pension plans or profit sharing trusts. That, of course, is no easy assignment. There is probably no more difficult job than convincing those with power to share it with others. Honesty compels us to recognize that we have barely begun the job. But frankly, I am fascinated by the prospect of using a vastly

improved stock market as a means for redistributing the power in this country. Sounds strange I know, but the brute fact is the securities industry, for all the dreadful rhetoric by its dinosaurs, has shown itself capable of extraordinary reforms. Once we stopped flexing our muscles in front of mirrors and started debating in open the ideas that count, we found we could make significant progress on striking a new balance between ideas and power. That continual need to balance ideas and power was what 1776 was all about and what 1976 should be all about. Success may be a long shot, but then, so too was the Declaration of Independence.