

7 THE FUNCTION OF THE INVESTMENT BANKER UNDER THE FINANCED-CAPITALIST PLAN

We have already noted the importance to the financed-capitalist program of commercial banks and other lending institutions accustomed to making loans to individuals. Since the investment banker is not normally a “banker” at all in the sense of being part of the national monetary and credit system, what could we expect the functions of the investment banker to be under the financed capitalist program?

Today, investment banks (or investment houses) are, together with the registered stock exchanges, the main factors in providing the facilities for the trading in outstanding securities. They are, among other things, the principal agencies in what is generally called the “secondary market” to distinguish it from the primary market in which the newly issued securities are placed with investors.

In general, we should expect that, in a financed-capitalist economy, two dominant tendencies would influence the secondary stock market. One would be the suppression of speculation or gambling in stocks, which are representative of the chief means of production in an industrial economy. Speculation in stocks is both tolerated and encouraged today because of the lack of understanding of the nature of a capitalist economy. It is neither more necessary nor more justifiable to encourage speculation in securities representative of the means of production than it would be to gamble with the labor power of workers—the other active factor of production.

The principles of economic justice, which are central to a capitalist economy, assert that wealth should be distributed to those who produce it. *They also imply that the acquisition of wealth, other than through voluntary gifts, or genuine changes in value through changes in supply or demand, by those who contribute nothing to its production, is the height of injustice.*³² The common justification for secondary-market speculation, aside from the necessity for orienting business transactions to ill-conceived tax laws, is that an active secondary market is necessary to “season” the securities of various corporations so that issuers can thereafter more easily obtain new capital when they seek it. This defense of the speculative stock market is almost groundless even in our present mixed economy, since only a minute portion of new capital formation is derived from the issuance of stock to investors in the market. The argument would be totally untenable in a capitalist economy. Under the financed-capitalist program, the ease with which corporations would acquire new capital through the sale of stocks would depend wholly upon the wealth-producing prospects of their capital-expansion proposals, and not upon the behavior of their stocks in a largely irrational speculative market.

³² See *The Capitalist Manifesto*, pp. 79-82.

Thus we might expect that the de-emphasizing of speculation in stock, and the emphasizing of investment in new capital formation, would bring about a tendency to reduce all forms of activity relating to the secondary market in stocks.

However, the other dominant tendency we have referred to would have an opposite effect. The inducement to finance the acquisition of new capital estates would far more than offset the tendency to suppress speculation, in terms of the volume of securities handled by investment houses or brokerage houses and stock exchanges. One of the goals of a capitalist economy is the financing of new capital formation entirely through the issuance of equity stocks directly to individual investors. The extent to which this would increase the volume of securities outstanding is incalculably great. Nor can there be any doubt of the desirability of a sound and active secondary market, in which market value would reflect, predominantly if not exclusively, the wealth-producing history and prospects—in the opinion of buyers and sellers—of the capital represented by such stocks.

What of the so-called investment-banker function? This function in the present mixed economy has been aptly described by Professor Merwin H. Waterman as that of a “transporter” of funds from the “savers” to those who would use the funds in capital formation.³³

While the financed-capitalist program would not exclude the investment of savings in new capital formation, it would provide a limitless alternative source of new capital formation. Furthermore, in the long run, the diffusion of private ownership of capital resulting from the guidance of new capital formation would eliminate the dominant tendency, present in a primitive capitalist economy and in the mixed economy, for savings and capital ownership endlessly to grow and concentrate in a geometric progression. The gi-

³³ *Investment Banking Functions* (1958), pp. 2, 11, 16, 20 and 56.

gantic accumulations of savings (property rights in which are increasingly attenuated) would tend to fade out, while submonopolistic capital estates would proliferate. Nevertheless, to the extent that savings would be available for investment, the investment banker would continue to be a transporter of funds between the saver and the user of new capital.

Far more important than the mere selling to corporations of their influence with or access to the owners of concentrated savings would be the functioning of the investment banker as the “attending physician” at the birth of new productive capital instruments and of new firms employing them. In this capacity, the investment banker would be charged with qualifying the stocks of new enterprises, or of existing enterprises seeking new capital, for financing through the financed-capitalist program. This function of investment bankers we might call their “entrepreneurial service” function.

Through their entrepreneurial-service function, investment bankers would bring to bear their expertise in the financial field to counsel issuers of stocks how to meet and satisfy the CDIC requirements in order that the stock to be financed would be eligible for financed-capitalist loan insurance. Thus their functions in this capacity would involve the articulation of the work of engineers, accountants, lawyers, marketing experts and all others whose services are required so to plan, design, and establish either a new enterprise or additions to existing enterprises that the newly formed capital will in fact “throw off” or produce the wealth that is expected of it. No service in the economy would be in greater demand or have greater importance than this function of the investment banker. It is at the point of rendering the entrepreneurial advice and counsel of investment bankers to new issuers that the extent of entrepreneurial error and the demands upon the CDIC insurance fund would be minimized.