NEW YORK STOCK EXCHANGE

MEMORANDUM

May 6, 1963

TO: Mr. A. James Meigs

FROM: Norman C. Miller

SUBJECT: SEC data in Chapter 1 -- Report #1

For your use in helping prepare testimony for Keith before the Senate Banking and Currency Committee, we are doing some background research into some of the data in Chapter 1 of the SEC's Special Study of Securities Markets. This memo presents material on two subjects mentioned in that Chapter -- 1) concentration in the securities industry, and 2) securities industry wages and salaries. A future memo will discuss over-the-counter market data.

CONCENTRATION

On page 21 in Chapter 1, it says:

> "It is estimated that about 60 per cent of the gross income from securities transactions of broker-dealers with three or more registered representatives was earned by 5 per cent of the total number of firms..... These were the large firms not specializing in mutual fund shares."

The above statement was based upon the data in Table 14 in Chapter 1 which shows 60.9% of gross income accounted for by 5.1% of the firms (mutual fund firms excluded).

In my next report, I shall point out how the percentage distribution data on gross income in Tables 8, 11, 12, 13, and 14 are of doubtful accuracy due to faulty statistical methods. However, under the assumption that Table 14 is accurate, the following data were computed to reflect the degree of concentration for other financial industries in a similar manner:

1. Life Insurance - 60% of total assets accounted for by 0.6% of the companies -- 9 companies out of 1,466 (year-end 1961).

2. Management Investment Companies (Open and Closed End) - 60% of total assets accounted for by 5.7% of the companies -- 21 out of 368 (year-end 1962).

3. Commercial Banks - 60% of total deposits accounted for by 1.8% of the banks -- 246 out of 13,432 (year-end 1961).

4. Mutual Savings Banks - 60% of total deposits accounted for by 11.1% of the banks -- 57 out of 514 (year-end 1961).

5. Fire and Casualty Insurance - 60% of total assets accounted for by 6.2% of the companies (year-end 1961).[1]

6. Savings and Loan Associations - Insufficient data available for a comparable measure. The 100 largest companies (1.6% of the 6,358 total) accounted for 24% of total savings accounts and savings shares (year-end 1961).

Thus, life insurance and commercial banks reflect a much greater degree of concentration than the securities industry. Investment companies[2] and fire and casualty insurance reflect a degree of concentration similar to the securities industry. Mutual savings banks are less concentrated. Savings and loan associations are probably less concentrated although the data are incomplete.

1/ 75 out of 1,210 companies as reported by Alfred M. Best & Co. Actually there are several thousand more very locally-operated companies for which there is no information. Thus, the degree of concentration is greater than these figures indicate.

2/ Not included in the SEC tabulation of concentration in the securities industry.

WAGES AND SALARIES

The SEC Study reports (page 26) that the securities industry's "compensation scale is unusually liberal (my underlining). In 1961, the average weekly earnings of its non-supervisory employees was $133.35, which was the highest reported for any industry and substantially above, for example, the $69.19 paid by banking. Similarly, the securities industry's average annual earnings of $9,607 per full-time employee in 1961, including commissions, bonuses and executives' compensation, was more than that of any industry group. Within the financial group, it compared with $4,826 reported by banking. The industry's average annual earnings in 1959 and 1960 were $8,775 and $8,358, respectively, which were also the highest of all industries in those years."

The Report's value judgment that compensation in the securities industry is "unusually liberal" is completely unwarranted on the basis of the facts presented. Several other factors have not been considered.

Definition of Non-Supervisory Employees

According to the definition of the Bureau of Labor Statistics -- the source of the average weekly earnings figures -- non-supervisory employees include "salespersons." Registered representatives, excluding members, partners, and stockholders, make up 36% of total Exchange Community personnel. In addition, non-supervisory employees would include most securities analysts in the industry, computer programers and operators, securities traders, and many other types of occupations generally calling for a college education. On page 22 of the Report, it states:

> "The educational level of the securities industry generally is high. Ninety-nine per cent of the incoming persons in 1961 had attended high school and almost 70% had spent time at college..."

Although no data are available, another possible feature may be a relatively low female work force in the securities industry compared with many other industries. However, this is probably not as important an influence, if any, as the educational factor, the great need for skilled personnel, and the extremely high proportion of specialized sales personnel who must pass NYSE and/or NASD exams to be registered.

Earnings of Full-Time Employees

All of the last section helps explain why the industry's average annual earnings per full-time employee was the highest of any industry group in 1961. It is interesting that the SEC stated that these earnings were also the highest "in 1959 and 1960". Why confine this comparison to only this period? The above has been true in <u>every</u> year since 1929, when data were first collected. No industry group has ever really come close, as far as I can see.

This suggests that the surface appearance of high average earnings is fundamental to the nature of the industry and its need for skilled and educated people. The Exchange Community and the rest of the industry has <u>never</u> been characterized by any lack of freedom of entry into its ordinary work force. Unionization is absent except possibly for isolated instances. And there is absolutely no evidence of restricting any occupation to a small number to assure a high wage. In fact, the SEC's position is that standards have been too lax in certain occupations.

The chart on page 34 in Chapter 1 shows how the securities industry consistently ranges well above the average for all industries in average annual earnings.[3/] No evidence exists that securities industry personnel are "overpaid"; in fact, the most common complaint is the reverse.

NCM

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cc: J. A. Brown

3/ On page 33, the SEC states that securities industry average earnings have grown at a slower pace since World War II than all other industries as a group.