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THE CHALLENGE OF OPPORTUNITY VS. SECURITY

(An address by Thomas B. McCabe, Chairman of the Board of Governors of the Federal Reserve System, before a Seminar group of Life Insurance Executives sponsored by the Life Insurance Companies of Massachusetts and the Graduate School of Business, Harvard University, Boston, Massachusetts, 7 p.m. April 13, 1950).

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I deeply appreciate the gracious invitation extended by you through my good friend, Paul Clark, to be here today with so many old business associates and to enjoy this opportunity to discuss some fundamental problems posed by your agenda. For many years the company with which I have been associated has consistently supported the executive training program of the Harvard Graduate School of Business, and it is a pleasure to be here with Don David and his staff.

In a real sense this is a unique occasion. I doubt whether there have been many occasions in the 190-year history of the life insurance business in this country when such a large portion of its leadership has been gathered together, aside from an association convention. No previous gathering, I am confident, ever had more worth while objectives.

Because this is a seminar of businessmen, the thought of joining in it aroused in me a deep feeling of nostalgia. I have spent more than thirty of the best years of my life in business. I must confess to you that, if my public service has been helpful to the general welfare, it is only because of the lessons so well taught by my business friends and associates, like many of you here tonight, and because of the varied experience which I acquired as a businessman.

I have never been directly connected with the life insurance business, except as a prospect and a customer, but I have always been a strong proponent of your business. My company was one of the early ones to set up a group life insurance plan for its employees, and I was constantly advocating the purchase of life insurance by my associates. Incidentally, I have personal policies with approximately a dozen different companies represented here today. Over the years some of you have been kind enough to ask me to serve on the boards of directors of your companies, but it has been impossible for me to accept these generous offers.

You have come here today, in this warmly vital academic atmosphere, not because of any specific emergency that requires immediate and particular attention but rather in a spirit of inquiry and of stock-taking, with the hope of producing a common basis for insurance in the broadest sense, insurance against the possible economic hazards of the future. This is the professional point of view. I am glad, indeed, to pay homage to it.

Government's Relation to Business

Much of your discussion at this seminar will turn about the problem of the relation of Government to business. This is inevitable, because the generation of businessmen to which we belong has had to face the problem of Government and industry more acutely than any other. Just consider the sequence of events which has rocked the world during the period when we have been called upon to make our business decisions.

The period begins with the first World War of 1914-1918. It encompasses both the fantastic intoxication of the stock market spree of the Twenties and the soul-shattering collapse of our markets, our morale, and almost of our faith in the American business system during the early Thirties. The period culminates in the wars of the Forties, first the shooting war with Germany and Japan, and now the long drawn out cold war with Russia. To have lived through and survived two World Wars, a boom and a bust, within a short period of thirty-five years is indicative of the strength, ingenuity, and resiliency of our enterprise system.

The essence of our American system of free enterprise is its resiliency. It rears men accustomed to face new situations and to react to them with initiative, energy, and decision. Our generation has had to make many adjustments, not only to new business problems as such, but also to a Government assuming new responsibilities in areas where there were no guideposts.

Now I am still old-fashioned enough to believe that much of the heart, the vision, the courage, and the dynamic strength of our great country lies in its vast number of private enterprisers. It is from our homes, our factories, our farms, and our marketplaces that we find the well-springs of our economic power and strength. Let us never forget that our Government is the beneficiary and not the source of that strength and energy.

During the past decade of my life, I have devoted a major portion of my time and effort to the Government. This experience has only reinforced my basic belief that, in its relations with business, the Government's primary responsibility in a democracy is to create the most favorable climate for industry, to write fair and equitable rules of competition, and to act as umpire in enforcing the rules of play demanded by the public and written into law.

To put this thought another way, we cannot look to Government to breed men fired with the capacity and the initiative that our free society will continue to require. For our form of society to flourish, we must have many individual enterprisers constantly vigilant to nurture the vital power necessary to promote a democratic existence.

This leads me to express a deep conviction. I strongly believe that we will have less concern with Government in business, and better Government and better business, when the leaders of private enterprise take time by the forelock and strive for statesmanship in their dealings with the Government, with the public, and with their employees. As leaders of business with proud economic responsibilities, you share with other citizens responsibility for contributing leadership in the formulation of Government policies. In a democratic system, there is no possible way of divorcing political responsibility from economic responsibility. Our Government can be no better than the leadership we give it.

During the four-year period of total war from 1941 to 1945, we developed an unparalleled spirit of business statesmanship. Then, the leaders of private industry, by identifying their interests and by uniting their efforts wholly with those of Government, performed the greatest industrial feat in the history of the world. Beyond any question, it was our industrial strength that distinguished us from all other participants and gave us the decisive superiority in supply so essential to victory in a total war. It is not at all surprising that, during the war period, business leadership reached a pinnacle in public goodwill, and by its magnificent performance, both in the workshop and in the Government, overcame much of the illwill which had been directed toward it during the great depression of the Thirties.

I mention both the practical possibility and the obvious need for united efforts on the part of the leaders of private industry and Government because I do not see how we can preserve the American way of life without such unity. The words of Lincoln -- "A house divided against itself cannot stand" -- are just as applicable today as they were ninety years ago. Then, the problem was the great moral one of human slavery, complicated by the political and constitutional question of States' rights. Today, the problem is the great moral one of individual opportunity versus security, complicated by the political pressures of capital, labor, and agriculture at home, and by the militant forces of Communism abroad.

Understanding: The Key to Business Statesmanship

As I thought over the things that I wanted to talk about this evening, it seemed to me that there was a certain pioneering or experimental air to this conference which is challenging. It is reminiscent of the formative period in the CED during 1942 when men like Paul Hoffman, Ralph Flanders, Bill Benton, and others had many a similar meeting to launch its program.

The seeds for various of our great economic research organizations, such as the National Industrial Conference Board, the National Bureau of Economic Research, the Brookings Institution, the Twentieth Century Fund, and your own Institute of Life Insurance, were undoubtedly planted in discussion groups not unlike this one. To some extent such organizations are a natural result as "thinking" men seek new ways to explore the increasing complexities of an ever-changing world. Each organization of this type has made significant contributions toward a better understanding of modern economic problems. Perhaps another opportunity may be present here.

I have just returned from an extended trip to Chicago, Denver, San Francisco, and Los Angeles. One cannot cross this broad continent of ours, visit its great cities, and read the history of the rise of the West without developing a keen sense of appreciation of the vision, the courage, and the iron will of our pioneers. Their accomplishments in clearing the land, farming it, extracting minerals, producing lumber and machinery, building cities, and creating myriad types of industry were truly tremendous. The most significant feature of this epoch was the philosophy of opportunity. There were no insurmountable obstacles for those who were willing to work and to fight.

Yet, in appraising the efforts of our pioneers, we must be historically accurate and consider the negative factors in the picture which became more significantly evident with the passage of time. I am thinking of the reckless destruction of our natural resources -- particularly of our forests and our top soil, the cankerous sores that were permitted to develop into the form of slum areas in our cities, and the lack of public responsibility on the part of some of our giant pioneers after they had gained their fortunes. We have great admiration today for those well-known benefactors of the past who gave fortunes to establish many of our renowned universities, hospitals, and research centers. But at the same time, we are rightly critical of those business leaders of yesterday who more often were merely voices of opposition than statesmen trying to view objectively the problems of their day.

Is the Pendulum Swinging Back?

One of your first speakers this morning had as his subject "The Decade of Opportunity." Every decade in American history has warranted this distinctive title. It will continue to be appropriate to future decades provided we remain free and dedicated to a philosophy of opportunity. I agree with Mr. Miller, however, that the present situation does give the title timely significance.

In the past few months we have witnessed the construction of a succession of roadblocks along a highway on which a sizable portion of the world had been traveling. Elections in New Zealand, Australia, and recently in Englad presage at least a pause in that journey. Millions of individual citizens in these nations are considering afresh their personal responsibilities to the governmental machinery they have created -- what they want Government to do, and how much.

This is reassuring news. It means that those of us who are proponents of our American combination of opportunity, personal liberty, political democracy, and a dynamic free enterprise system now have a more receptive audience around the world. Let us not fail to keep the faith.

We must use this pause to refresh and revitalize our abilities and our talents to deal constructively and courageously with the problems we face. I am convinced that the public, if given the facts and wise leadership, will not demand restrictive laws that curb and hamper our thriving industry. If industry exercises adequate self-discipline and shows proper regard for the public welfare, it need have no fear. In other words, we must maintain that delicate balance between business and Government that our form of democracy envisioned without the responsibilities of either becoming superimposed on the other.

The Life Insurance Business in Its Modern Setting

Now let us take up the life insurance business and analyze it in its broad relations to our society and to the issues posed by the times in which we live. Life insurance is the business in which you have been reared. You depend on it individually for your livelihood. It is your lifeblood and no competent authority exists that can equal you in knowledge of its problems. You have the "inside" view.

But is the "inside" view enough? From my conversations with some of you in the past, I am convinced that you are beginning to take a more objective "look-see" at your relations to the economy. This is all to the good. Without the broader point of view you cannot have the true perspective that enables you to see the woods for the trees.

A very simple touchstone comes to mind. We hear much today of certain very familiar statistics with respect to the growth of the life insurance business. They show that nearly eight times as many people have life insurance today as in 1900, that the amount of policies in force totals over 200 billion dollars, and that four of every five American families have an average of $5,000 worth of such protection. Now what do these statistics mean to you? What do they really mean?

They certainly do indicate that the life insurance business is very large, that it has undergone very rapid expansion, and that it now disposes of huge resources. The overall totals are convincing proof of that. But what about the averages? Many people hold several insurance policies. Do the four out of five families actually covered by life insurance have insurance protection in any substantial volume? How much of this insurance is group insurance? How much is burial insurance?

Does an average tell the story or does it tend to obscure what some say is the real picture? Is it possibly true that life insurance is much less widely dispersed than these averages would seem to imply? That very large policies have lifted the average materially? And that the direct stake in life insurance, or in the fate of the life insurance business, of the great mass of American families is much less than the figures would seem to imply?

I raise these questions, not in a spirit of criticism, but to seek their true and wider meaning. Do you yourselves know the answer? Is there any danger that you consider your business to be more broadly rooted in American society than it actually is? I know that you have recently begun to sponsor basic research into such problems as the volume of savings and investment. I think that was a wise decision. My questions relate to the scope of your research program. Is it really broad enough?

As you know, we in the Federal Reserve System are able to throw a little light on some of the questions I posed above. The volume of savings in relation to investment is very important to us, and we have taken the initiative to find out some of the answers. Our Surveys of Consumer Finances among American families have not directly covered the face amounts of life insurance in force, but they have covered life insurance ownership and annual premiums paid. They confirm that four of every five American families do have some life insurance protection. At the same time they show that somewhat less than half of the families having policies pay as much as $100 a year in premiums and that about one family in four pays less than $50 a year. These figures clearly indicate that the average is raised to $5,000 by the inclusion of some very large policies.

Interest of the Life Insurance Business in the Federal Reserve System

The stake of American families in life insurance introduces my next point. That point concerns the responsibilities, policies, and operations of the life insurance companies in relation to those of the Federal Reserve System. In certain areas, as I see it, our responsibilities are common.

The basic responsibility of the Federal Reserve System is to focus all its operations on the maintenance of economic and financial equilibrium and stability in the economy. This we do through operations designed to influence the supply, availability, and cost of money and credit. We labor under no illusion that we alone can maintain that equilibrium and stability. We know that we cannot. The health of our economy reflects many forces, both public and private. Some of them have their source beyond our boundaries because the American economy is part and parcel of a world economy. At the same time, we in the Federal Reserve System are humbly conscious of the part we do play and of the serious responsibilities that have been delegated to us by the Congress.

Some of our actions and recommendations are directed solely to the short-run outlook in the economy, designed to maintain sound, high-level economic and financial stability. True economic and financial stability, however, involves much more than day-to-day maintenance of stability at a high level of activity. It also includes the preservation of a balanced, yet flexible, structure of finance and industry, wise long-run public policies with respect to taxation and expenditure, and wise long-run monetary policies.

The longer I have been associated with public life, the more I have become aware of the necessity of widespread public understanding and support if public duties such as ours are to be discharged in the common interest. There is almost nothing we can do in performing our duty that will meet with universal commendation. Almost any action we may take is bound to be unpopular with some group or other, and come under their attack.

These attacks, however, have little force if our actions are well conceived, are in the general welfare, and are sufficiently understood by the various levels of community leadership.

A Congressional subcommittee of the Joint Committee on the Economic Report, under the distinguished chairmanship of Senator Douglas, recently held long and exhaustive hearings on the central problems of monetary, credit and fiscal policy. They inquired into the essential nature of our responsibilities and the character of the instruments and policies that we had available to deal with them.

In my judgment, the subject matter of those hearings was of particular interest to the business of the life insurance companies of this country. I had expected them to play a much more prominent part in the hearings than they did. I had hoped that that part would indicate their broad concern with, and understanding of, the basic issues. Because of its long-time financial commitments to its policyholders, the life insurance business, more than any other, has a fundamental stake in the preservation of long-run economic and financial stability. We in the Federal Reserve System should expect to find in its ranks our severest critics when we fail properly to appraise our responsibilities. We have a right to count on its warm support when we take actions, sometimes unpopular actions, to maintain and preserve a balanced, long-run monetary position.

Security versus Opportunity -- A Paramount Issue

Let us now turn to a most difficult issue, an issue of primary importance from the standpoint of the life insurance business. I refer to the issue of "Security versus Opportunity." It has been called one of the paramount issues of our times. Don David, in his recent article on "The Danger of Drifting," said, "I see our apparent desire for security everywhere -- not only in the demands of labor for pension funds and so on, but also, and even more significantly, in some of the attitudes and actions of management."

This issue arises in many forms. It underlies the growth of statism abroad where it takes the form of restrictive economic and financial controls that jeopardize innovation and economic flexibility in the pursuit of full employment. It takes the form of over-concentration on pension and seniority rights at the expense of mobility in our working forces. In the capital markets it takes the form of a shift of saving patterns to fixed investments, and a reluctance to furnish funds for venture capital. There should, of course, be no conflict or issue between the twin goals of security and opportunity. Both are needed in our society. Both have a role to play. They must be held in delicate balance. We cannot really enjoy security if we undermine the economic bases on which it rests.

How does the issue of security versus opportunity impinge on the life insurance business?

It impinges, I think, on both sides of the balance sheet. The life insurance business was founded and built on the concept of security. It exists to provide security, security to mitigate the hazards of death, of disabilities, and of old age. These hazards are real. It is the glory of the life insurance business that it developed a technique by which their financial effects could be held within bounds, particularly for people of moderate means.

But in so doing, the life insurance business contributed to the psychological basis of the problem of security that is challenging us today.

It is the life insurance business more than any other that discovered how to provide financial security against certain types of hazard, and having demonstrated that such security was feasible, turned on the full blast of its merchandising activities -- its advertising and selling -- to make the people security conscious.

Please do not misunderstand me. Your industry's achievements in selling are outstanding in our enterprise history. The concept of security has now become an accepted fact in our philosophy, however, so much so that we are beginning to express concern about it. Certainly the life insurance business is not primarily responsible for the current overemphasis. But it should not be overlooked that their efforts may have helped unwittingly to sow the wind from which we may reap a whirlwind.

As insurance leaders, you cannot afford to sit on the sidelines when this concept, the very one on which your business is built, threatens to become oversold. I would suggest that you review with the greatest care your promotional activities, your sales appeal, and your advertising, to see how they can be better attuned to the spirit and problems of these new days, particularly to the need to reinvigorate the spirit of venture and enterprise in our society.

The Life Insurance Business and the Shortage of Equity Financing

The problem of "Security versus Opportunity" affects your business most immediately on the asset side of your balance sheet, namely, the fact that your assets consist overwhelmingly of debt instruments. We hear a great deal today about the alleged shortage of funds for equity financing in spite of the fact that current savings are very large and that personal savings are at the highest level in our history. We also hear some voices today that question whether there is a shortage of equity financing in view of the current high level of investment expenditure in our economy and the contribution to this expenditure made by equity funds, particularly equity funds in the form of retained earnings.

My statement last August on the equity capital situation presented my basic thoughts on this subject. The widespread and favorable response to this statement, including comments from leaders in your industry, gave impressive indication of the concern of many thoughtful leaders about the need for a more adequate flow of venture capital.

However, I want to state here again my personal position on this problem. I feel that there is a shortage of equity capital -- that is, of equity capital at a reasonable cost. I base that judgment primarily on the fact that the businessman who wants to obtain equity capital in the market finds it very costly to obtain.

I recognize that some aspects of the high cost of equity capital are possibly transitory. But my studies of the subject have convinced me that there are stubborn, structural factors in the situation which must be dealt with over the longer-run period. These may involve special institutional adaptation as well as modifications in the security laws and in the tax structure. These other factors affect particularly the availability of equity financing to smaller established concerns and newly launched enterprises, and present a very serious obstacle to the progressive emergence of newer types of industry.

I do not regard the large investments now being made from retained earnings as conclusive with respect to the problem of whether a shortage of equity capital exists. If opportunities for investment are large, it is natural that some favorably-situated enterprises should make an effort to take advantage of them. If a shortage of equity capital exists on the market, these investments would have to be made predominantly by those concerns which do not have to go into the market for equity funds because they can obtain them by retention of earnings.

Price is the recognized, sensitive indicator of the relationship of market supply to market demand. The current price of equity financing relative to debt financing is certainly high by any modern standards. Furthermore, analysis of the factors making the current price of equity capital high shows that several inflexible elements are very important. To me, the evidence adequately confirms the assertion of businessmen everywhere that outside equity financing is difficult to obtain on terms which would be reasonable for them to accept.

At this point, I should like to say that I am profoundly disturbed by the long-run implications of a situation in which equity financing is too dependent on retained earnings. It raises not only the question of a fair deal for stockholders and of the tax return to the Government, but also it has disturbing implications with respect to the maintenance of competition in our economy. Ultimately, over-reliance on retained earnings as a source of equity would lead to an over-concentration of industry and to a lessening of the competitive forces on which we rely to keep our industry dynamic. Sound ways must be found -- and I hasten to emphasize "sound ways" -- to open up the channels of outside equity financing. Clearly, they must be opened up if concerns, large as well as small, with lower ratios of retained earnings, are to be able to compete effectively in our expanding markets.

What is the significance of this equity capital problem to the investment policies of insurance companies? We are all conscious of the ferment that is stirring in the insurance world with respect to their investment activities, with the movement that is on foot to seek changes in legislative restrictions that, in some States, limit or prohibit insurance companies from investing in common stocks.

I stated my position on this controversial question last August as follows:

> " . . . consideration [should] be given to a liberalization of the investment opportunities open to fiduciary institutions, particularly the life insurance companies. In view of the large volume of individual savings flowing into private pension and insurance reserves, the legal restrictions on insurance companies and other fiduciaries which prohibit

them from investing in corporate stocks should be reviewed. These restrictions, rightly established many years ago as safeguards needed at that time, may, in the light of changed savings and investment patterns, now be out of date. I recommend that the life insurance companies, in cooperation with the proper State authorities, explore fully the opportunities for investing in common stock with the aim of modifying these restrictions."

That is still my position. I feel that a careful review of our legal restrictions on the investment opportunities of fiduciary institutions is in order. I would now be inclined to make one addition to that position, namely, that the study, in so far as it applies to the life insurance companies, be broadened to include the whole problem of the role which insurance companies should properly play in relation to the equity requirements of our growing economy, and that it not be limited to the question of whether or not life insurance companies are to be permitted to invest in common stocks. In making this addition I wish to emphasize the word "whole". I think it would be a grave mistake to limit the scope of the study merely to the question of whether the insurance companies are to be permitted to enter the market and add to their portfolios a diversified list of "blue chips".

From your "inside" view, the shortage of equity financing poses a dilemma. In the first place, you are acutely aware of the rise in the cost of insurance to the public that has resulted from the sharp decline in the average rate of interest on bonds and mortgages since the 1920's. On the other hand, you are deeply conscious of the fact that the insurance funds committed to your care are a sacred trust. You must always safeguard that trust by stressing security and maintenance of value of your capital fund, if necessary at the sacrifice of yield.

I wish to treat this problem in a somewhat broader setting. I sympathize sincerely with your concern over the decline in the average rate of return on your portfolio, and the effect of this decline on the cost of insurance protection. At the same time, the stability of life insurance investment is so crucial to the stability of our financial structure that I would be loath to regard the desirability of a higher rate of portfolio return as an adequate justification for any move that might reduce the quality of the portfolio. My concern springs from additional considerations.

I am impressed first with the very large volume of investment funds which have been entrusted to you to administer. I am further impressed with the large accretions to those funds that take place annually. You gentlemen in this one line of business administer, subject to various legislative safeguards, a significant fraction of our current savings. Your decisions, consequently, determine what kinds of investment such savings will finance. If our economy can be reasonably expected to need each year a sufficient volume of new debt financing to furnish a sound investment for these savings, I would be inclined to let well enough alone. If this result cannot reasonably be expected, however, the public would have cause for alarm. That is why it is important to ascertain the facts, and having ascertained them, to take appropriate action. I do not think we will achieve the goal of a balanced economy, or that our economy will maintain a long-run stability, if a disproportionately large volume of our savings is earmarked for fixed interest investment in the form of bonds and mortgages compared with the additions to the supply of such investments. If this were to occur, we would find that the cost of bond financing and mortgage financing would persistently decline relative to the cost of other types of financing.

Need for Study of the Insurance Business Investment Problem

Please do not misunderstand me or jump to conclusions that are not in my mind. I know that many of you are prepared to say, "McCabe is implying that it is a disproportionate flow of insurance funds into bonds and mortgages which has been largely responsible for the present low interest yields and the shortage of equity capital, when we all know that it is the tax structure and the monetary policies of the Federal Reserve System that are responsible."

I am fully aware of the primary importance of fiscal policies in our over-all financial situation, and have so expressed myself on various occasions. I dealt with our monetary problems exhaustively before the Douglas Subcommittee to which I referred earlier. I am not certain, however, that the large volume of insurance company investments channelled by custom and law into bonds and mortgages has not also contributed materially to current disparities between the cost of debt and equity financing. I plead with you, therefore, to inaugurate studies to determine what the true facts are.

If, on the basis of the findings, it appears reasonable to infer that life insurance business by virtue of its successful growth now manages total funds in excess of the amount that prudent consideration would allocate for investment in bonds and mortgages, what is the broader significance of such an inference? Surely, it is more than a simple move to channel insurance funds into "blue chip stocks". The whole field of productive investment open in our economy should be examined, not merely the field of common stocks, to see where life insurance funds may be made available, both prudently and constructively.

I have some preliminary judgments as to what such an inquiry would show, and also some suggestions as to the types of outlets that may have potentialities. First, I am inclined to feel that examination will reveal a real need for permitting additional outlets for insurance investment. I think that new and more liberal legislation will be indicated.

Second, I am impressed with the fact that since the existing legislation was written, the economy of the United States has passed from a debtor to a creditor status. This change in status cannot be neglected among the vital factors that have contributed to the fall in interest rates from the much higher levels that prevailed a generation ago. I think it highly doubtful that, even in the fairly long future with which you are necessarily concerned, we will see a return to those portfolio yields so far as they may reflect investments in high grade bonds and mortgages. It cannot be overlooked that our change from a debtor to a creditor position implies lower interest returns for funds invested at wholesale. It does not, however, imply correspondingly lower returns for situations where the investment of funds is married to the management of money.

To me, this means that large institutional investors can no longer afford to regard themselves exclusively as wholesalers of money in the bond market or in the mortgage market. To obtain satisfactory average yields, institutional investors must increasingly seek opportunities where successful investment involves more than the skilled management of a bond or mortgage portfolio. Opportunities of this kind may be expected to become increasingly more numerous in our wealthy creditor economy.

What I am saying is not altogether new to you. In seeking prudent and new outlets for its funds, the insurance business is already experimenting along these lines. Your relatively recent projects in building, owning, and managing housing developments and certain commercial structures of stable value are a case in point, as is also the decision made by some of your Massachusetts companies, sponsors of this seminar, to support the Research and Development Corporation.

I would suggest that you look in still other directions. For some time now I have been greatly impressed by the steady drain upon our timber reserves throughout the United States, in Canada, and in Alaska. The war used tremendous quantities of high-grade lumber and our mounting construction and industrial requirements cut deeper and deeper into the remaining forests. The growth cycle of trees is very long. The indications are that, as existing supplies continue to dwindle, lumber reserves will become an increasingly profitable investment over the years.

Is there an opportunity for insurance companies to place their funds at work in this area which only a few can afford to finance because the commitment must cover such a long span of years? Frankly, I do not know. I do suggest, however, that it represents the type of investment that you should examine with the greatest care. Insurance funds are very long-term. In general, they should find their most appropriate outlet in supplying the very long-term investment needs of our economy. I mention this merely as an illustration of the possibilities of investment that you might find it advisable or profitable to explore.

I have referred earlier to the difficulties in financing of smaller-sized businesses and to the serious challenge this presents for the future maintenance of a dynamic free enterprise system. Considerable attention, I am glad to say, is now being paid to this problem by various responsible groups both inside and outside of Government, including your own business. What the best approach to an effective solution may be is not at this stage crystal clear. Probably there will need to be a number of approaches tried experimentally before we find the full solution. I am personally more and more inclined to some financial mechanism that will provide for tapping our great pools of resources if one can be worked out within a framework of private finance.

Such a mechanism was suggested a few years ago by the Committee for Economic Development in the form of a capital bank plan. I know that you will agree with me in the assertion that no such mechanism will ever achieve substantial results unless the operating resources available to it are sufficient to support the rendering of effective merchandising, accounting, and engineering services along with needed financing services. Granting an effort to supply a combination of needed services, I should think that a fundamental contribution to filling a recognized gap in existing financial facilities might well result, especially if it can be done as a private undertaking or with a minimum of Government assistance. Here is surely an area of opportunity for the insurance business to serve not only its own interest but the public interest as well.

Today's Challenge

In conclusion, I would like to reaffirm a point of view I expressed last summer. As you will gather, I am a confirmed optimist regarding the future of America. I firmly believe that the basic characteristics of our economy are expansion and growth. Economic expansion today presents a strikingly different challenge from that of a hundred years ago. Then, the frontier of development was the opening up of our great western resources. The geographic frontier is gone, but we still have a frontier. That frontier is technology -- the technology of producing more and better goods with the resources we know are available and the technology of distributing those goods on a mass basis for the constant improvement of the standard of living of all.

To realize our potential of sustained expansion, we need to be more concerned with opportunity and less with security. We further need to be concerned with assuring a steadily increasing flow of investment funds into opportunities involving equity ownership. I sincerely believe that, if we are in earnest, ways and means can be found for accomplishing this purpose that are fair and equitable to everyone concerned. The life insurance business can play a most significant role in this undertaking.