

INVESTMENT COMPANY ACT AMENDMENTS OF 1967

WEDNESDAY, OCTOBER 18, 1967

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE AND FINANCE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 2123, Rayburn House Office Building, Hon. John E. Moss (chairman of the subcommittee) presiding.

Mr. Moss. The committee will be in order.

We are very pleased to introduce our first witness this morning, who appears at the request of the committee, Prof. Henry C. Wallich, professor of economics, Yale University. Professor Wallich.

STATEMENT OF HENRY C. WALLICH, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. WALLICH. Mr. Chairman, I understand it is agreeable to you if I summarize my statement.

Mr. Moss. Certainly it is. We will receive your statement for the record, and you may summarize it.

(Mr. Wallich's prepared statement follows:)

STATEMENT OF HENRY C. WALLICH, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

CAN THE MUTUAL FUND BUSINESS BE IMPROVED?—THE INVESTMENT COMPANY AMENDMENTS OF 1967

The economics of mutual funds reach far. Judgments must take into account distant ramifications and allow for exceptions if they are to avoid being contradicted by particular instances. It is safe to say, however, that the growth of mutual funds has on the whole been beneficial to their holders and to the economy. The issue before your Committee, as I see it, is improvement, not reform.

Holders have benefited, for the most part, by a good rate of return. In times when inflation falsifies the true return on fixed dollar claims, mutual funds have made it easier for the small investor to hold common stocks and have given him shelter against this form of loss. Mutual funds protected him against some of the risks of stock ownership by offering a degree of diversification that he could not have easily and cheaply attained on his own.

The economy has benefited by an increased demand for equities. While the stock market does little in the way of providing capital for business, it does indirectly encourage business investment if it lowers the cost of capital. A high price-earnings ratio for common stocks is the analogue of a low interest rate on bonds. It enables businessmen who are alive to their cost of capital to reach out farther for investment opportunities than they could at a higher cost of capital, even if they do no new stock financing. With price-earnings multiples almost doubling compared with the late forties, this cheapening of investment funds must have stimulated business investment in plant and equipment, even though bond rates and mortgage rates are probably higher because money has