

Mr. WATKINS. How in your opinion do you think that 5 percent is a fair rate? I have heard a lot of testimony here saying, "Do you agree with this?" Many of these firms would have to go out of business. One firm has 240 employees, operating in the State of Pennsylvania, New Jersey, and Delaware that are giving a real service to the small purchaser of their funds, of their stocks that they sell. They say that they cannot operate on 5 percent. Now that is the meat of what I would like to know.

The technical business is being handled by my friend here. I want to get into that position. That is the biggest complaint against this bill, objection to a 5-percent levy by the SEC.

Mr. WALLICH. Yes, sir.

Mr. WATKINS. Will that ruin a business or won't it? With this 5-percent fee, with these other methods that you say they might have—

Mr. WALLICH. There are always marginal businesses, and some businesses may have to shift to some other line and some salesmen may have to start selling something else if we go to a 5-percent charge.

Mr. WATKINS. Do you think that is proper, that we have the right to rule a man's business out? In other words, a business is operating successfully and not imposing any loss to the public. I understand from testimony it is about 2 percent. What right do we have in your opinion, I am asking you, sir, to do a thing like that?

Mr. WALLICH. The right I think derives from the fact that this is a monopoly. We have retail price maintenance. If you were prepared to institute free competition at the retail level, and let these 240 salesmen go out and really compete, that is to say cut—

Mr. WATKINS. Well, they do compete, don't they?

Mr. WALLICH. They do not, sir. I am sorry, sir.

Mr. WATKINS. They compete with other companies. There isn't just one mutual company. Do you know how many mutual companies there are that do this business in the United States?

Mr. WALLICH. With due respect, they engage in rivalry and they may work very hard. I am not accusing these people of—

Mr. WATKINS. Do you know how many there are? Do you know how many firms there are in this business?

Mr. WALLICH. Yes. I don't know the number. I know it goes into the hundreds. This is not relevant to the proper concept of competition. As Professor Samuelson has said once before, there is a kind of monopoly that a small organization, of which there are hundreds, may have under certain conditions.

For instance, a single bank in a small town, or a drugstore where there is no other drugstore within 20 blocks. In the mutual funds field the nature of monopoly is a little different. It is that the law requires the SEC to engage in retail price maintenance. If two salesmen of different funds meet, and they both charge 8.5, none are allowed to cut.

Mr. WATKINS. Let's stop at the 8.5. I want to take exception. You say that it is a monopoly, and you say it is not competitive. I say it is a competitive business, at least I think so. You can perhaps enlighten me, I will have a change of heart perhaps, but I think it is a competitive business for this reason. Will you agree that if John Smith comes to me from one mutual company and he sells me the idea to purchase various stocks through his firm, perhaps he has got a better in, perhaps