Now a great deal has been said in the last couple of weeks about competition in this business. I think the plain fact of the matter is that the business does have a substantial number of units, but very little competition in the sense in which that term is ordinarily used. This may sound like a paradox but it isn't. There are a great many of these separate units, but they are severely restricted by law, Federal law, from competing with one another by offering better prices for the securities of a particular fund.

There is no effort—and I introduced in evidence, when I appeared here before, a document which indicates that the trend is continuing—there is no effort to offer a better deal to the investor by providing a lesser charge. The competition, to the extent that it exists, is to seek the favor of the salesman, and his employer, the dealer, and that is achieved and is still in progress by offering greater financial rewards to those who engage in the sale of shares.

Now, this type of competition bears little relationship, if any, to free enterprise, the classical free enterprise system as we know it, and the type of competition that we discuss. It is for this reason that I have earlier referred to this as a perverse form of competition. It is the kind of competition which has Government protection and encouragement for charging the highest charges that the traffic will bear.

It is a system under which the Federal Government authorizes the industry to operate outside the controls of the antitrust law, outside the controls normally provided by disclosure of compensation for management services, and outside the controls provided normally by competitive free enterprise. In fact, the statute provides a shield against those forces from operating within this industry. It is for this reason, I believe, that the Federal Government and the industry share responsibility for the excessive charges now being made to the American public for investment in mutual funds, and it is for this reason that I think the Federal Government has, and I would hope that the industry would join in meeting, the responsibility to give adequate weight to the interests of the public, and thus assuring the continued health and development of the securities markets, and more particularly of these mutual funds.

I wish to emphasize that this bill is not directed against mutual funds. In our view this bill will not affect mutual funds. It is designed to make mutual funds a more attractive vehicle for investors, many of whom perhaps were deflected from taking advantage of this vehicle, because of the high acquisition and maintenance costs.

Now, perhaps I should deal with advisory fees. In this area, in my view, industry witnesses have completely misconstrued what our proposal is, why we advanced it, and how it would operate. Industry witnesses conceded (1) that they were fiduciaries, (2) that investment advisory fees should be reasonable, and (3) just to quote their words, "the investment adviser has a definite responsibility to see to it that the fees are reasonable."

Although they were at times, some of them anyway, rather coy about admitting this fiduciary responsibility, after some searching questions put by the subcommittee, the record is indubitably clear on this subject.

Mr. Watkins. Mr. Chairman.

Mr. Cohen. Yes, sir.