Stock Exchange

"Go into the London Stock Exchange – a more respectable place than many a court – and you will see representatives from all nations gathered together for the utility of men. Here Jew, Mohammedan and Christian deal with each other as though they were all of the same faith, and only apply the word infidel to people who go bankrupt. Here the Presbyterian trusts the Anabaptist and the Anglican accepts a promise from the Quaker. On leaving these peaceful and free assemblies some go to the Synagogue and others for a drink, this one goes to be baptized in a great bath in the name of Father, Son and Holy Ghost, that one has his son's foreskin cut and has some Hebrew words he doesn't understand mumbled over the child, others go to their church and await the inspiration of God with their hats on, and everybody is happy." — **Voltaire**

My sole voting Patron picked the stock exchange as the topic for my next post, so here it is. When he picked it, I didn't know enough about the stock exchange to write about it — maybe I still don't.

I had had an idea that somehow it was too complex to run without government regulation. That sounds ridiculous once it was articulated, because I believe the entire economy can function better without government regulation. Now I've done some research, and it turns out that most regulation in the stock exchanges — even the New York Stock Exchange — is largely performed by independent entities such as FINRA.

This makes this a much more boring and less abstruse subject than I anticipated. No matter, we can still discuss it.

The stock exchange is just a formal organization for free market activity, and as usual, government intervention is unnecessary at its best, and even detrimental.

The New York Stock Exchange was founded in 1792, but people still exchanged stocks before that, under a buttonwood tree. Amsterdam had the first stock exchange in the 1600s, and London and Philadelphia followed shortly before New York. The SEC — which regulates exchanges and such — wasn't founded until 1934, in response to the Great Depression.

Congress blamed insider market abuses and inadequate disclosure of financial data for the Great Depression, and reacted by creating the SEC. In truth, the Great Depression had more to do with tariffs and poor Federal Reserve policies. I feel like I've heard this story before: the government causes a problem, and uses the problem as a reason to take more power.

Insider trading is probably among the top couple of financial crimes average Americans are aware of. Should it be a crime? Do we need the SEC to stop it? I say no, on both accounts.

If it’s viewed as a beneficial rule, individual stock exchanges can implement and enforce it within themselves, but I doubt its beneficiality. Market prices are set by the information available to the market, and most often this information takes the form of people buying or selling. If someone buys or sells based on information not generally available, his actions bring a piece of the information he has to the general public.

Disclosure of financial data has no need to be mandatory; the market and the exchanges already require it. They did it before Congress mandated it, and there’s no reason to think they would stop if Congress didn’t exist.

Of course, this financial data costs money to produce and disseminate. When the SEC requires more disclosure than the market demands, it limits the functional efficiency of the companies involved. When the SEC requires less or the same disclosure than the market demands, it is superfluous.

In summary, although no system is perfect, stock exchanges would perform just fine — and even better — with only nongovernmental regulation. We don’t need the SEC or the related Congressional acts. Freedom suffices.