

BARRING OUT THE STOCK THIEVES

HOW KANSAS HAS SET AN EXAMPLE TO THE OTHER AMERICAN STATES IN HER SYSTEM OF SAFEGUARDING THE MONEY OF HER PEOPLE

BY ISAAC F. MARCOSSON

HERE is a lesson from Kansas that the whole country may learn with profit to itself. Let us begin with a concrete incident that tells the story.

John Hanson, let us say, owns a farm out in the alfalfa belt, fifteen miles from Hutchinson. Summer winds and rains have ripened his wheat, and the last load of his golden grain is housed behind elevator walls. He has two thousand dollars to his credit in bank. Life looks pleasant for him as he sits smoking his pipe on the porch in the cool of the evening, while the shadows creep across the grass. In his mind's eye he sees a red runabout in the barn, a new patch of pasture added to the farm, and less discomfort and isolation for the winter, so near at hand.

There is a honk down the road. A motor-car stops in front of the house, and a brisk, breezy, energetic person steps out and walks up the driveway.

"Well, neighbor, how are you?" he says with great effusion. "I have come all the way from Kansas City to see you."

"Sit down," says Farmer Hanson.

The visitor draws up close and confidentially. When he has disposed of the crops, the weather, and the family, he says:

"Mr. Hanson, the opportunity which poets say comes only once to a man in all his lifetime is now knocking at your door. I am that opportunity. You are too intelligent a man for me to waste words. I want to make you a partner in a great enterprise—the most remarkable chance that ever came to a Kansas farmer."

Then, with all the siren blandishments of his kind, with that world-old bait which seldom fails to catch, he unfolds the usual oil-stock scheme. It is to pay thirty per cent the first year, fifty per cent the second year, and at least one hundred per cent the third year. In short, it is the traditional grand, glittering, unsubstantial rainbow.

Farmer Hanson listens attentively and pulls at his pipe. Apparently he is deeply impressed, for Midas is beckoning to him; but it happens that he has been reading his Hutchinson newspaper. When his eloquent visitor has finished, he calmly asks:

"Have you a license to sell your stock?"

The affable visitor coughs, and then beams amiably.

"Well, as a matter of fact," he replies, "this is such an inside, dead certain proposition that we did not want to take the whole State into our confidence. There is only a limited allotment of stock for Kansas, and we wanted a few good people like yourself to get in on it. We did not consider it necessary to take it up with your authorities. Besides, they want to know too much."

The stranger is very reassuring, very plausible; but Farmer Hanson is firm. As he rises to his feet, he says to the canvasser:

"If you have no license, you are wasting your time here. Good night!"

He knocks the ashes from his pipe and goes indoors, and the would-be philanthropist disappears into the gathering darkness.

This happened early last autumn. Today there are many thousand Hansons in



J. N. DOLLEY, THE BANK COMMISSIONER OF KANSAS, A HIGH TYPE OF THE
FEARLESS AND RESOLUTE PUBLIC OFFICIAL

From a photograph by Colville, Topeka, Kansas

Commissioner Dolley has set a remarkable precedent or other States in his censorship of corporations seeking to sell securities. Through his efforts a law now stands on the statute-books which keeps out the get-rich-quick promoter and the unscrupulous stock-vendor. The result of his activities, summed up, is that out of six hundred corporations desirous of offering stocks and bonds in Kansas only forty-seven have been licensed.



GOVERNOR W. R. STUBBS, OF KANSAS, WHO APPOINTED COMMISSIONER DOLLEY TO OFFICE, AND WHO HAS STOOD FIRMLY BEHIND HIM IN THE CAMPAIGN AGAINST THE STOCK CROOKS

From a copyrighted photograph by Squires, Lawrence, Kansas

Kansas and few stock salesmen. Those who do drop in on the farmers or sit in the widow's parlors have somewhere on their person the printed, signed, and sealed authority of the State of Kansas to do business. They operate under what is known as the Blue Sky Law, and they have something to sell besides heated atmosphere and rosy expectations.

In that Western cradle of reforms—the hotbed of all sorts of insurgency, from John Brown to Walter R. Stubbs—there has risen a protest against spoliation more potent and effective than anything in the past because it is economic and not emotional. By the enactment and rigid enforcement of a drastic statute, the State has shut out the plundering promoter, safeguarded the people's savings, and set up a real tribunal for the financial rights and wrongs of her citizens. It is a kindling example of genuine public service.

HOW THE PEOPLE WERE ROBBED

First of all, why is this Kansas episode so pertinent? Simply because it deals with a universal evil that knows neither section, State, nor class. It has flourished because the worldly hope is set upon money. To make one dollar suddenly turn into five is the dream of countless thousands.

In vain efforts to accomplish this miracle, the people of the United States have been looted of many hundreds of millions of dollars. For years, a mighty golden stream has flowed into the coffers of the mining, the industrial, the all-around "get-rich-quick" sharks. No scheme has been too wild or impossible to claim its victims. The carnival of fraud has continued in defiance of all warnings, and in spite of that long, ceaseless, haggard procession which bitter and costly experience sends constantly to bankruptcy, to the asylum, or to the grave.

Kansas has had her full share of such financial disasters. One reason was that out of the travail of her lean years on the farm have come many seasons of plenty, with fat wallets, burned mortgages, and money in the bank. Where there is widespread prosperity, you will always find recklessness. The Kansan was no exception. He became land-mad, and bought acre after acre in inaccessible places; he lavished his profits on gaudy stock certificates that would have put respectable wall-paper to shame. An army of five hundred salesmen ravaged

the State, and filched from it millions of dollars annually.

There was no redress. The Kansan, like his brother in every other State, was the helpless dupe of the persuasive swindler. He plunged with a free mind, and when he lost he kept it to himself. This silence has been one of the mainstays of the whole "get-rich-quick" business, for it has bred a whole new crop of victims each year.

But you can always count on some kind of intermittent upheaval in Kansas. Usually, too, it is an effective one, and so it happened in this deplorable matter of indiscriminate security-selling. When it subsided, the fake promoters had disappeared as if a prairie cyclone had struck them.

It all developed because a certain man became bank commissioner of Kansas. His name is J. N. Dolley. He is a big, up-standing six-footer, who sprang from sturdy Yankee seafaring stock, and who shipped before the mast as a boy. He settled in Kansas in his teens, and grew up with the country. Long before he was fifty he owned a few banks, and was generally regarded as one of the substantial citizens of the State.

Of course, he got into politics. He was speaker of the Assembly, and served in the Senate. He got his Scottish-Irish fighting blood up in the first insurgent campaign, for he planned, fought, and won the battle that put his old legislative mate, W. R. Stubbs, into the Governor's chair.

Mr. Dolley received the bank commissionership as a reward for his political service. At least this is what most people thought. The State chairman of the winning party usually got it. For years it had been a political plum, pure and simple, with perfunctory duties, which consisted mainly of cursory bank examinations. No attention was paid to the pitiless pillage of the people by the stock sharks.

But there was method in the appointment of Mr. Dolley. Governor Stubbs knew his caliber and his temperament. That temperament fitted into the mood of the times, which was one of inquiry.

The old political order had changed. In the Governor's office sat a sandy-haired, dreamy-eyed man, who had risen from section-boss to the highest position in his State. Behind those dreamy eyes lurked an inspiring ideal of public service, and it found one of its realizations in Mr. Dolley.

When Governor Stubbs appointed the commissioner, he said:

"I want you to examine every bank in the State just as if you were going to buy it. Then supervise them as if you owned them."

There began a new era in the bank commissioner's office. It ceased to be a political annex, and became the mainspring of the whole State banking fabric.

THE CAMPAIGN OF CONSERVATION

Mr. Dolley believed that a bank commissioner had other responsibilities besides examining banks. Clearly to understand what now transpired, it is well to remember that before he took up his official task he had been a banker. He knew a good deal about the activities of the stock sharks. Every now and then a widow, or a G. A. R. veteran, or a foolish farmer, told him how hard-earned savings had been dropped into a hole called by courtesy a mine or oil-well. The trouble was that they always came to him *after* they had been plundered.

The whole evil was borne home to him very strikingly one day at Arkansas City, where he was called on to make a speech at an anti-horse-thief convention. He was warning the audience against heedless investment, and urging the need of careful preliminary investigation. Then he said:

"Will all the people who have not been swindled in some kind of stock deal please stand up?"

One man arose.

Pitiful letters began to come to him from people who had risked their all to make a quick profit. He began to investigate, and became convinced that the State government should throw a protective arm around its people, and that some kind of barrier should be raised against the invasion of fraud and deception.

He discovered that the promoters had a regular system. For one thing, they watched the real-estate transfers. As soon as they saw that a farmer had sold his farm, or that a widow had disposed of her town property, they pounced upon the possible investor. In some mysterious way they learned when insurance money or death benefits were paid. A victim is always easier when there is ready money in the house, and by this organized plan they reaped a rich harvest.

"These cruel frauds must stop," said Mr. Dolley. "The State Banking Department is going to do its utmost to safeguard the people's money."

He gave out an interview in which he

stated that ninety-eight per cent of the money paid over by Kansas to stock salesmen was thrown away. He made his office a clearing-house whose unwritten motto was, "Consult us before you invest, and we will help you all we can."

The commissioner called the State press to his aid, for he knew that publicity would be his best weapon. He sent the following letter to every editor in Kansas:

As you perhaps know, I have established a department in the bank commissioner's office to protect the people of Kansas from fakers with worthless stock to sell. I give you below a small item concerning the matter, which I hope you may be able to use in your paper. I have no funds for advertising purposes, and the only way I can get this information before the people is through the generosity of the Kansas press.

The item to which he referred read as follows:

TO THE PEOPLE OF KANSAS

The State Banking Department has established a bureau for the purpose of giving information as to the financial standing of companies whose stock is offered for sale to the people of Kansas. If you are offered any stock, and want information as to the financial standing of the company offering the same, before investing please write this department and I will furnish it.

J. N. DOLLEY,

State Bank Commissioner.

Having issued his defiance to the sharks, he instituted an effective "follow up" plan. He inserted blanks, addressed to himself, in all the newspapers, to be filled in by prospective investors with the name of the concern or corporation soliciting them, its address, and a brief résumé of its promises. He also sent similar blanks to the various banks, for distribution among their customers. Thus every financial institution in the State became the organized foe of the spoiler.

THE FIGHT FOR THE BLUE SKY LAW

But despite all these efforts, Mr. Dolley labored under a serious handicap. Although he was able to advise many people, and to save their money, he was only reaching part of the population. The unscrupulous promoter was still plying his trade, because there was no law to keep him out.

As a result, the commissioner framed a statute to regulate and supervise the sale of securities. To use his own picturesque phrase, "it had to have hooks in it strong

enough to catch a whale," and when he completed it there was no loophole through which a tricky stock salesman could crawl. He called it the Blue Sky Law, because, in warning people not to purchase wildcat promotion stock, he used to say:

"Don't buy that—it's just blue sky!"

The promoters who had enjoyed such rich pickings for years were determined not to

moral in every line for the small capitalist who has money to invest. The whale-catching hooks are all there.

State and national banks, trust companies, real-estate mortgage companies, building and loan associations, and corporations not organized for profit, are exempt from this law, because other adequate measures regulate their activities. Every other cor-

STATE OF KANSAS

J. N. DOLLEY
Bank Commissioner
F. J. PARTRIDGE
Assistant



BANKING
DEPARTMENT

This Statement is to Certify, That JOHN DOE has been duly registered with this Department, according to the provisions of House Bill No. 906, Session Laws of 1911, which became a law and went into full force and effect on March 15, 1911, as agent of

The John Doe Gold Mining Company of New York City, New York

which Company is permitted to do business in this State under the provisions of the above-named law, and such registration entitles said agent to represent said Company as its agent until March 1, 1912, unless said authority is sooner revoked by this Department.

But this Department in no wise recommends the securities of the above-named Company offered by such agent for sale.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name.

Done at Topeka, Kan., the 27th day of November, 1911.

J. N. DOLLEY,
Bank Commissioner.

A SAMPLE OF THE STOCK-VENDOR'S LICENSE ISSUED UNDER THE SO-CALLED "BLUE SKY LAW"
BY THE BANKING DEPARTMENT OF THE STATE OF KANSAS—THE COMPANY
NAMED IS OF COURSE AN IMAGINARY ONE

give up the field without a struggle. They organized a lobby and fought the bill to the end. But Mr. Dolley was a trained legislator, wise to all the ways of the lobbyist. He took the floor himself in support of the censorship measure—an almost unprecedented procedure—and it went through triumphantly.

Now let us see what the Kansas Legislature has written on the statute-books of the State. It is wholesome reading, with a

poration, company, or individual, whether it be incorporated under the laws of Kansas or of any other State, that sells or in any way handles stocks, bonds, or other securities—with the exception of government, State or municipal bonds—is subject to the statute, and must undergo a rigid censorship before it can do business.

Before offering its stock, it must file a complete statement of its affairs with the commissioner. Nor can this be an adroit

piece of figure-juggling, as so many similar documents are. The blanks which Mr. Dolley requires each applicant to fill out permit of no evasion.

The corporation must give an itemized exhibit of its assets and liabilities, a description of property actually owned, a copy of its charter, an outline of its plan of business, a statement of the exact amount of business transacted, the minutes of directors' meetings, and any other information that the State may require.

THE "HOOKS" IN THE LAW

These, you may say, are more or less perfunctory things. But there are other requirements which are extremely unusual, and also very effective, because they afford direct ways of getting at the core of a fake promotion. For instance, the company must tell the amount of time each officer gives to his work with it; the number of its securities that he actually owns; the amount of cash he has invested in the company; and the salary he draws. This exposes dummy directors and gives an accurate line on real stock ownership.

The commissioner reserves the right to make examinations of the company's affairs at any time that suits his desire or convenience. Hence the corporation, once admitted to the State, never knows when an examiner will come along, and it must be geared up to its best behavior all the time.

One provision of the law is worth printing in full, because it declares for publicity, the greatest safeguard that can be placed around any investment. It is as follows:

The general accounts of every investment company, domestic or foreign, doing business in this State, shall be kept by double entry, and such company, its copartners or managing officers, shall at least once in each month make a trial balance of such accounts, which shall be recorded in a book provided for that purpose. Such trial balances, and all other books and accounts of such company, shall at all times during business hours, except on Sundays and legal holidays, be open to the inspection of stockholders and investors in said company or investors in the stocks, bonds, or other securities by it offered for sale, and to the bank commissioner and his deputies.

Every foreign corporation must file its signed consent that actions may be commenced against it in the proper court of any county in Kansas in which a cause of action may arise. This makes it easy to prosecute violators of the law. Under old conditions

it was well-nigh impossible to get at the real offenders in "get-rich-quick" promotions, because they evaded legal service by keeping out of the State.

A point on which Mr. Dolley has laid much stress, in investigating the applications for licenses, is that of the commissions paid to stock salesmen. In the old days in Kansas, canvassers used to put into their own pockets as much as thirty, forty, and even fifty per cent of the money they extracted from their victims. Equally excessive commissions are still being allowed by promoters operating in other States. An enterprise that has to pay such extortionate rates in order to raise money cannot possibly be a legitimate one. The Kansas law names no exact figure as a maximum, but Mr. Dolley considers that the salesman's commission should not be more than fifteen per cent.

Any agent who offers securities for sale in Kansas without a license from the State is subject, for each offense, to a fine of not more than five hundred dollars, and to imprisonment for not more than ninety days.

PUTTING PROMOTERS TO THE TEST

At this point you will naturally ask how the bank commissioner is to pass on the eligibility of a corporation. What does he know of expert bookkeeping, and about gold-mines, oil-wells, or the promotion of mechanical devices?

Mr. Dolley meets this readily enough. If the financial statement does not satisfy him—and he is a trained banker—he sends an expert auditor to go over the company's books. The members of one of the largest firms of expert accountants in the West are his official examiners. If the applicant has a gold-mine, he sends a trained engineer to the spot to investigate; if it is an industrial concern, the best man available goes to look over the plant and its product. Thus the State takes no chances; and if the company really has something to offer, it gets the benefit of this investigation.

When Mr. Dolley is satisfied that the enterprise is solvent, that its operation is honest, and that "in his judgment it promises a fair return on the stocks, bonds, or other securities offered for sale," he issues a revocable license authorizing it to do business in Kansas.

You observe that I use the word "revocable." This keeps the corporation on its good behavior all the time. The moment it strays from the straight and narrow path,

the iron hand of the law is sure to find it out and snatch away its right to operate.

The license itself is a very simple document. There are two forms—one to be hung up in the office of the company, and another and smaller one which the stock canvasser is required to carry and show on request. Both contain the significant qualification that "the department in no wise recommends the securities of the company licensed." This, of course, relieves the State from any responsibility in the matter of investments—a responsibility which it could not properly assume. The license tells the investor that the stock is not prohibitively bad, but leaves the question of purchasing it to his own judgment.

Mr. Dolley carefully explained the new system in newspaper interviews and in circulars to banks. The result is that if a bank employee anywhere in Kansas hears of an unlicensed stock-vendor in his community, he wires at once to the commissioner, who in turn telegraphs the county attorney to order the sheriff to arrest the man. One of the duties of the State bank-examiners, who constantly travel all over the commonwealth, is to keep a lookout for such offenders.

ENFORCING THE CENSORSHIP

There was widespread consternation among the hot-air artists when the edict against them went forth. They flocked to Topeka to protest against such an outrageous boycott on a "legitimate business." "Bankers" and "underwriters" stormed the capital. After having a session with Commissioner Dolley, they found that they were up against a stone wall.

In many instances, the promoters who come to scoff remain to pray for mercy. Some of them have found that the commissioner knew things in regard to their enterprises of which they themselves were ignorant. These revelations are merely a tribute to the completeness and accuracy of the investigations that Mr. Dolley makes.

Do not conclude, however, that Mr. Dolley's enforcement of the law has been of more than Draconian severity, or that every corporation applying for a license is ruthlessly turned down. Scores of legitimate industrial and other enterprises have met every requirement, and now display the State's permission to do business as a valued asset.

The whole net result of this remarkable

activity may be summed up in a sentence which at once shows the need of the reform. Out of six hundred corporations and concerns which have sought licenses to sell their securities in Kansas since the passing of the statute, in March last, just forty-seven have been admitted.

The five hundred and fifty-three concerns barred out of Kansas are presumably operating in other States where the government has not shown the same concern for the protection of the people. One commonwealth's gain is the loss of many others.

Of course, the Blue Sky Law only applies to the sale of stock in person. It cannot prohibit a response to mendacious circulars and siren-worded advertisements. But since Kansas is an agricultural State, with few cities of any considerable size, and because nearly all the worthless stock sold there was brought in by canvassers, the law has put an end to most of the wretched business.

THE COMMISSIONER IN HIS OFFICE

I talked with Mr. Dolley in his office in the Capitol at Topeka, in a long, high-ceiled room, which is at once an inquisition-chamber for the dishonest schemer and a tribunal for the financially oppressed. In its vaults is the pedigree of every security-selling corporation doing business in the State. There is also a record of every piece of commercial paper in the Kansas banks.

Mr. Dolley believes that behind successful banking must be the most rigid publicity. No man, no matter how obscure his post, can become an official in a Kansas bank without submitting himself and his affairs to investigation by the State Banking Commissioner.

"It is my ambition," Mr. Dolley said to me, "to make the office of bank commissioner an advisory bureau for every citizen of Kansas. The protection of the people against the stock shark is bigger than banking supervision or banking reform. It is the approach to banking, for without the money of the average man and woman we could have no banks.

"The Blue Sky Law will have its largest effect only when every State in the Union adopts some similar safeguard. Then, backed up by the support of the Federal government, the nation can clean out the crooks, and legitimate business enterprise will receive such universal support from the savings of the American people as it has never had before."

A MIDAS OF THE STREET

BY ALMA WOODWARD

J. HARRINGTON DOANE turned impatiently from the window through which he had been staring for fifteen minutes, as a shuffling sound came from the hallway outside his office. It was the shuffling peculiar to boots whose soles have turned up wearily from overwear, and whose heels have long since been strewn layer by layer along the byways.

At almost the same moment a shadow, ragged in outline, appeared on the ground-glass door. It was visible for a second; then the shuffle moved along, up the hall.

Stewart, Doane's secretary, heaved a sigh of relief and glanced at his employer, who suddenly walked to his desk, seated himself, and propped both elbows before him. Then the tense silence that always indicated the reading of the morning mail settled down on the room, to be broken within a few seconds by a remote but persistent telephone-bell.

Doane moved restlessly in his chair. His elbow swept a batch of stock reports to the floor, and Stewart rose mechanically to restore them. Just then the shadow again clouded the gilt lettering on the door, and a timid hand grasped the knob and half turned it.

"Go out and see who's making that infernal racket in the hall, will you, Stewart?—and have it stopped!" There was an angry gleam in Doane's eye—his accustomed morning humor was evidently breaking its own record.

The secretary moved swiftly toward the door, and threw it open so suddenly that the slender figure clinging to the other side was flung across the threshold, and a box of picture postals clattered noisily to the floor. Stewart kicked the box out into the hall, pushed the young vender in the same direction, then stepped across the sill and closed the door behind him.

For a full minute the secretary's high-pitched tones, sounding violent reproof,

echoed into the office. The argument was audibly one-sided, and seemed to give promise of no satisfactory conclusion; so Doane took matters into his own hands.

"Stewart, Stewart!" he shouted. "What in thunder is the matter? Can't you get rid of a street beggar?"

The door was pushed back half-way, and Stewart's plump, flushed face appeared in the opening.

"He won't answer me, Mr. Doane. He doesn't even move—just stands there staring at me like a ninny!"

There was a querulous note in Stewart's complaint that angered Doane beyond endurance.

"Oh, come in here and sit down!" he ordered coldly, and with more than his usual contempt. "I'll send him flying, and without delivering a lengthy discourse on the whys and wherefores!"

The secretary held the door open for his employer, then went slowly to his own desk and began again the monotonous jotting down of market quotations.

Outside, in the hall, J. Harrington Doane faced the offender, and the violent words of abuse that trembled on his lips were checked.

The boy before him, perhaps fourteen years of age—not more—was clothed in the safety-pinned tatters of the street mendicant; but, unlike others of his kind, he gave the impression of being remarkably clean. Tightly clasped in his thin hands was an old cigar-box filled with glaring, tinseled post-cards. He stood with his body rigid, a defenseless victim before a dread inquisitor.

But it was the face that held Doane's eye, and made him almost gasp at the beauty of it. It was a face fashioned with all the delicacy of an exquisite Greuze. The cheek was pallid, with a pallor born of insufficient nourishment and utter lack of sunshine; but the eyes were large and brilliant, and the lips full and red.