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*Origin of the Exploratory Committee  
on Financial Research of the  
National Bureau of Economic Research*

TO AN increasing extent in recent years thoughtful people have been asking searching and fundamental questions about money, banking and finance. This attitude of inquiry permeates many groups. It is notably prevalent today among those most intimately and directly concerned, including bankers and other operating officials of private financial institutions, faced with the problem of adjusting their activities and adapting their organizations to current conditions, as well as legislators, public officials and supervisory authorities, who are responsible for establishing the legal framework within which financial institutions function. The following questions indicate the trend of their thought.

1. Has our financial organization, as a whole, accentuated booms and deepened depressions? How can it be used to moderate them?
2. What principles should be applied in the relationship of government to private financial institutions?
3. What are the essential services that financial institutions provide? Are they organized to function effectively?
4. What should be the basis of competition between

different types of specialized financial institution? To what extent is competition among them in the public interest? Has competition of some types tended to weaken the financial structure?

5. What are sound credit standards, in instalment financing, real estate financing, investment financing? In what ways does the lowering of these standards not only weaken an individual institution, but also undermine the credit situation as a whole?

6. What is the significance of (a) the decline in the demand for commercial loans? (b) the current low level of interest rates?

Questions like these, simple as they appear, are not easy to answer. Our organization of finance is highly complex. It is made up of many thousands of individual institutions characterized by great diversity of size, and by varying degrees of specialization. In it are commercial banks, savings banks, Morris Plan banks, industrial banks, mortgage banks, investment banks, Federal Reserve banks, home loan banks, credit unions, finance companies, insurance companies, investment trusts, security exchanges, brokerage houses, and many others. All these institutions are more or less specialized. Some are huge organizations, nationwide in scope, others operate within narrowly defined geographical limits. Together they constitute our system of finance, the mechanism through which essential financial services are rendered the community. But it is a system whose growth has been haphazard; it has not been planned. Our knowledge of its workings is inadequate. When new problems arise, we are not in a position to solve them; nor, when questions such as those noted above are raised, can we give factual answers.

Recent experience has demonstrated that we cannot postpone solutions and answers indefinitely. Our system

of finance has long functioned inadequately, despite a greater degree of public supervision than is common in most other highly industrialized countries. Ever since the outbreak of war in 1914 it has been faced with new problems which neither its organization nor its experience had prepared it to meet. In its diverse reactions to the unbalanced forces that have swept the world during the last two decades it has seemed to many thoughtful people to have accentuated whatever was most dangerous in each new situation. Under good conditions its expansion at times was unrestrained, and under adverse conditions it collapsed. Taking the period as a whole, thousands of individual units have been forced to the wall and for a time in 1933 the mechanism stopped functioning and the community was deprived entirely of the advantages of a financial organization.

Even though we are emerging from depression, still there are numerous conditions in the realm of finance that are new to our experience and whose implications we cannot judge. It is clear that the time calls for a new approach to the entire problem of finance, an approach that is not limited to single institutions or to piecemeal legislation, but that contemplates a continuous examination of our financial organization as a whole in relation to the essential services that justify its existence. This is recognized not only by public officials, economists and students of finance, but also by far-sighted bankers and executives of private institutions who realize that their own institutions cannot be regarded as isolated units unaffected by conditions in the rest of the credit system; that the financial stability of one institution depends not only on the quality of its assets, but also on the soundness of the credit structure as a whole. The primary need is to determine the facts and establish principles. Mere discus-

sion of controversial issues is purposeless. Research by an impartial agency is the most effective means of fulfilling the need and avoiding the pitfalls of partisanship.

These considerations led to the appointment of an exploratory committee on financial problems by the National Bureau of Economic Research. Early in July of 1936 the Committee on Nationwide Banking Research of the Association of Reserve City Bankers suggested to officers of the National Bureau that an impartial agency should undertake a comprehensive survey of the banking structure of this country. This suggestion was thoroughly discussed at a subsequent conference, held at the Chase National Bank on July 21, 1936, between the Committee on Nationwide Banking Research and representatives of the National Bureau. As a result the National Bureau was requested to appoint a small committee to explore the subject of financial research with two objectives: (1) to prepare an inventory of relevant scientific work now in progress, and (2) to draw up recommendations of procedure which in the judgment of the Committee might be expected to lead to a better common understanding of the financial problems facing this country.

The National Bureau thereupon formally appointed the Exploratory Committee on Financial Research—Winfield W. Riefler, Chairman; David Friday, Walter Lichtenstein and J. H. Riddle—which submits its report herewith. The Committee engaged Ralph A. Young of the University of Pennsylvania to assume charge of its inventory and also to act as its Secretary. It has directly, or through the efforts of Dr. Young, endeavored to get into contact with all substantial projects in financial research now current. The sum of \$7,500 was appropriated by

the Association of Reserve City Bankers to the National Bureau to finance the work of the Exploratory Committee.

The National Bureau of Economic Research welcomes this opportunity to express its appreciation of the initiative shown by the Committee on Nationwide Banking Research of the Association of Reserve City Bankers in seeking a disinterested approach to the solution of financial problems. It wishes to thank also all those with whom the Committee has been in touch for their active, prompt and cordial cooperation. Without such cooperation this report, and especially the Exploratory Committee's inventory, published separately as Volume II, would not have been possible.

And without the continued collaboration of those who have so far aided and the active participation of others in government, in banking, and in universities, this ambitious program in the public interest cannot hope to be successful.

In accordance with the decision of the Executive Committee of the National Bureau on February 11, its officers have initiated the negotiations designed to bring practical realization to the Committee's plans.

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