

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: A Program of Financial Research Vol 1: Report of the Exploratory Committee on Financial Research

Volume Author/Editor: Exploratory Committee on Financial Research

Volume Publisher: UMI

Volume ISBN: 0-870-14458-8

Volume URL: <http://www.nber.org/books/exp137-1>

Publication Date: 1937

Chapter Title: The Problem

Chapter Author: Winfield W. Riefier, Chairman, David Friday, Walter Lichtenstein, J. H. Riddle

Chapter URL: <http://www.nber.org/chapters/c0614>

Chapter pages in book: (p. 11 - 14)

THE PROBLEM

THERE is wide recognition in this country of a need for much more fundamental research into financial problems. There is an equally wide disposition throughout large sections of the community to cooperate with and to provide support for a program of impartial research. This cooperative attitude characterizes practically all groups concerned with financial problems, divided as they otherwise are by conflicts of interest and controversies with respect to the many financial questions at issue. The desire for a more basic and disinterested approach to problems of finance arises, in fact, from the very existence of these conflicts and controversies; for they indicate the extraordinary state of confusion that pervades public thinking on financial matters today, a confusion that will persist, it is feared, until the entire subject is clarified by impartial study.

This state of mind reflects the drastic financial experiences through which the nation has passed in recent years, a series of experiences that as a whole have no precedent in history. After assuming the exhausting burden of financing the World War we have passed through the post-War depreciation of currencies, the reestablishment and subsequent breakdown of the international gold standard, and the virtual collapse of our major financial markets—for stocks in 1929, for bonds in 1931, and for mortgages in 1932. With the banking crisis of 1933 still fresh in our memories we have seen a growth of excess banking reserves to enormous volume, a decline of interest rates to

exceptional levels, and more recently, a striking revival of business activity without a corresponding revival in the demand for commercial credit. Taken individually, there are historical parallels for many of these phenomena. Taken collectively, they are without precedent. Their essential nature and the lessons they may embody in terms of future financial repercussions are still the subject of violent controversy and to a considerable extent lack authoritative interpretation from any source.

Divergent opinions concerning the significance of these developments cannot be ascribed to lack of effort on the part of students of financial problems, nor to lack of funds for far-reaching programs of research. During this same period financial data have been compiled, financial problems analyzed, and specialists trained in financial research at an exceptionally rapid rate—within governmental bureaus and private business and financial institutions as well as at the universities and at institutions devoted to economic research. Many of the divergencies are due rather to a lack of coordination of these efforts and facilities, large as they have been, and generous as has been their support. There has not existed during any part of this period, nor in fact since the termination of the work of the National Monetary Commission, any agency responsible for the coordination of separate inquiries into financial problems as parts of one whole. In the absence of such an agency, areas for research have been unevenly developed, leaving large and important sectors, such as the organization of mortgage finance and instalment credit financing, relatively unexplored. Furthermore, operating officials of private financial institutions have frequently been out of effective contact with research. It has been difficult, consequently, for the research specialist to utilize the valuable experience and insight bankers have to contribute, and

they in turn have frequently been slow to apply to their own problems the well established findings of research. To a certain extent there has been a similar lack of contact among those working in the field, engaged either in the compilation of financial material or in the analysis of financial problems. Consequently, the emphasis put upon financial research in recent years has in some cases contributed to the confusion, conflict and controversy. Faced with urgent demands for the interpretation of forces as unexpected and unforeseeable as those which have swept the financial organization of society during this period, financial specialists have been compelled to advance tentative explanations based upon incomplete data. It is inevitable under the circumstances that these should frequently have been at variance with one another.

The program recommended by the Committee must meet the conditions imposed by this background. First, it must suggest specific studies for which there is urgent need. For example, our financial institutions should be resurveyed on a much more comprehensive basis. This survey should not be limited to banking institutions alone, but should embrace the entire financial organization. Second, if research activities are to be really useful and to remain in focus upon a changing scene, the program must provide a continuing mechanism by which they can be readapted from time to time in accordance with current developments. This mechanism should be of such a character that it may be continued as long as need for it exists. Finally, it must provide in its basic pattern of organization for the active cooperation and participation of public officials and of officers of private banking and financial institutions, as well as of specialists in finance from the universities, from business research bureaus, and from

other institutions devoted to the compilation of financial data and to the analysis of financial problems.

The Committee is fully aware that the accomplishment of these objectives is not easy. In any field composed of groups with strongly divergent interests, a program directed towards cooperation, even upon the plane of impartial research into common problems, presents great difficulties. In the financial field these are magnified not only by competition among the various financial groups, and tensions between these groups and public supervisory authorities, but also by controversies among experts themselves concerning the fundamental nature of the issues.

The Committee believes, however, that the magnitude of the need presented outweighs the hazards and that the program it has worked out can be made to function. It has been evolved to preserve the requirements of objectivity, and to provide a framework within which leaders in the various fields of private finance, governmental authorities, and university specialists can pool their resources, their insight, and their experience in the pursuit of a common understanding. The fact that the most acute tensions of the financial crisis are now receding into history makes the present propitious for the inauguration of such a program; the fact that the initiative in the appointment of this Committee was taken by a group of private financial institutions indicates that the need is widely felt; the cordial cooperation the Committee has received from those actively engaged in financial research everywhere, in the government and in the universities as well as outside, augurs well for its feasibility.