

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 2: Inventory of Current Research on Financial Problems

Volume Author/Editor: Exploratory Committee on Financial Research

Volume Publisher: UMI

Volume ISBN: 0-870-14459-6

Volume URL: <http://www.nber.org/books/expl37-2>

Publication Date: 1937

Chapter Title: Credit and Economic Stability

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

Chapter URL: <http://www.nber.org/chapters/c0819>

Chapter pages in book: (p. 227 - 234)

## C. CREDIT AND ECONOMIC STABILITY

### I. WORKS PROGRESS ADMINISTRATION, NATIONAL RESEARCH PROJECT

#### *Recent economic history of five towns*

With the object of tracing the specific effects of Federal expenditures on small communities during the depression and recovery intensive study has been made of the course and phases of the depression in five selected communities of from three to five thousand inhabitants, situated in California, Georgia, Ohio, Massachusetts and Minnesota. Each town designated for study was chosen to represent different economic backgrounds. So far as possible, the communities selected were ones isolated from large marketing centers but located near the center of a county, so that the entire county constituted the marketing area for each town studied. Following uniform plans for procedure, available data have been collected on a monthly basis from the beginning of 1929 to the middle of 1936 covering: (a) principal liability and asset items of banks, together with debits and credits to deposit and loan accounts, and a classification of deposits by type of depositor; (b) sales, pay rolls, employment, accounts receivable for business establishments and manufacturing plants; (c) newspaper advertising; (d) receipts of post offices, public utilities, railroads, etc; (e) mortgage foreclosures, vacant properties, rents, and other data bearing

on real estate conditions; (f) indexes of retail prices, mostly food prices; (g) receipts, expenditures and borrowing of local government units; (h) expenditures of the Federal government on a county basis. Analysis of the data for each town is being made independently by the supervisors of the local surveys, and is to be supplemented by a general comparative treatment. While the restricted nature of the sample of the investigation imposes definite limits on the scope of generalization, it is hoped that some inferences of theoretical import may be drawn as to the effects on smaller communities of monetary and financial policies applied since 1933.

In preparation under the general supervision of Dorothy C. Bacon of Smith College; individual community surveys were carried on under the immediate direction of Donald M. Erb, Stanford University; Maurice R. Brewster, Emory University; Clifford L. James, Ohio State University; Richard L. Kozelka, University of Minnesota; and George R. Taylor, Amherst College. Publication by the Works Progress Administration of the completed study is expected by late spring 1937.

## 2. NATIONAL BUREAU OF ECONOMIC RESEARCH

### *Real estate financing and economic stability*

Launched in 1935 at the suggestion of the Committee on Banking and Credit of the Social Science Research Council, this project is intended to deal comprehensively with the relation between real estate financing and economic instability. Based upon new, exhaustive information assembled in recent years through governmental sources, it is attempting to collate systematically and to analyze available materials bearing on all phases of real estate credit. Among the leading problems on which re-

search is being concentrated are the following: (a) the volume of mortgage credit outstanding classified by major fields, priority of mortgage, geographical location; (b) the volume of mortgage credit currently extended similarly classified, and apparent changes in the volume of mortgage credit extended in the past as affected by changes in real estate values, the volume of residential building and other construction activity; (c) the sources of real estate credit and the role of institutions that serve as intermediaries in its distribution to borrowers; (d) the purposes for which real estate mortgage loans are made, i.e., the acquisition of old or existing properties, the financing of new construction, the funding of old debts, the rehabilitation of working capital; (e) costs and other conditions affecting the volume of real estate credit, as interest rates, maturities, and repayment method; (f) risk factors peculiar to real estate credit and conditioning in various ways supply and demand forces; (g) the relation of the expansion and contraction of the real estate mortgage structure to real estate prices and to new construction, durable goods production, security market speculation and other phases of economic activity; (h) the relation of real estate and construction financing operations to the banking and credit structure.

In preparation under the direction of David L. Wickens, an Associate of the National Bureau, and financed from funds given for the purpose by the Social Science Research Council. Publication of the complete study is not expected before 1938. Partial findings of the investigation are to be published in the interim as monographs.

For other parts of this project see IC(f)2; IIB(d)2 and (e)2; IIIA3; IVD8 and 9

3. MARGET, A. W.

[UNIVERSITY OF MINNESOTA]

*The theory of prices*

A further section of this theoretical inquiry is devoted to the relationships of credit and prices to output from the standpoint of business instability. This entails analysis of the nature of savings and investment, the theoretical possibilities of a disparity between the two under a credit economy, and the impact of changes in credit, savings and investment on the structure and volume of employment and output. The significance of such concepts as the 'multiplier' and 'leakages', both for the theory of prices and output and for the critical appraisal of credit policies under various conditions, is examined in some detail. Keynes' doctrines as contained in his *Treatise on Money* and his *General Theory of Employment, Interest and Money* constitute the starting point from which this inquiry is developed.

For other parts of this project see VA6 and B6

4. HAMILTON, E. J.

[DUKE UNIVERSITY]

*John Law's system, the first experiment with a managed currency*

This program of study plans a reexamination of all available writings of John Law with a view to restating the monetary principles underlying his system of currency management and ascertaining the sources from which he developed his ideas. It will also undertake to trace anew the genesis, operation and results of Law's monetary experiment on the basis of quantitative data covering the period 1711-25, to be gathered from manuscripts accessible in public and private archives in France. The ob-

jects of this part of the study are: first, to devise more accurate measures of major economic phenomena that were affected by his experiment; second, to determine and describe more precisely the effects that his experiment had on prices, wages, production and trade in both urban and rural areas, and also its effects on different social classes and French economic organization generally.

Materials for this study have been in process of collection for several years. Additional materials are to be assembled in France during the coming year under a grant from the Guggenheim Foundation. It is not expected to be completed before the end of 1938.

5. PHILLIPS, C. A., MACMANUS, T. F., NELSON, R. W.

*Banking and the business cycle*

The study attempts to reconcile and synthesize monetary or bank credit, structural and equilibrium theories of the business cycle and to analyze post-War cyclical phenomena in a synthetic theoretical framework. The monetary or bank credit theory, it is contended, explains the origin of business booms; the structural theory, with its emphasis on changes in the structure of production and the disequilibrium between savings and investment, explains the characteristics of the boom; and the equilibrium theory is necessary to describe the depression proper and to explain its severity and persistence. The central thesis is that the depression of the 'thirties and the feverish activity of the immediately preceding years reflected primarily bank credit phenomena, and that these phenomena are attributable to forces inherent in our central banking system. Against the background of the continuity of historical processes, the immediate causes

of the recent major depression have been traced, the point of departure being the economic and financial dislocations ascribable to forces generated by the World War.

The study then deals broadly with the financial setting of the post-War boom, including international and domestic factors, as price relationships, currency standards, the distribution of gold, and central banking policies. In this setting, post-War developments in American banking have been examined, in particular: (a) the expansion and contraction of bank credit, especially credit extended for capital purposes; (b) structural and organizational changes within the banking system and changes in the manner of its functioning; (c) central banking policies and operations and their impact on underlying financial development; (d) the conditioning effects of inflationary bank credit developments on the structure of production and the balance between investment and savings.

A succeeding part of the study is concerned with various aspects of the depression, and the elements determining its course, severity and duration, pertaining chiefly to the forces of crisis, the interrelationships of the security market collapse, the decline of production, producer and consumer incomes, and the collapse of the banking system. The final section is devoted to a critical appraisal of central banking policies and theories applied in the post-War period, based on the preceding theoretical and empirical analysis, and sets forth the authors' views of appropriate credit policies, and criteria for such policies, for preventing undue credit expansion and maintaining a balanced structure of production. Various aspects of recovery policies proposed and applied in recent years are evaluated in this connection.

This study has been completed and recently published.<sup>1</sup>

<sup>1</sup> Macmillan and Company, New York, 1937.

6. REEVE, J. E.

[THE UNIVERSITY OF CHICAGO]

*Monetary proposals for curing the depression in the United States, 1929-1935*<sup>1</sup>

On the basis of pamphlet and periodical materials available in leading libraries, personal collections, the *Congressional Record*, and the correspondence files of the Treasury, various monetary proposals advanced in recent years for curing depression are analyzed. The period of study has been divided into five sub-periods and monetary proposals appearing in each are being separately studied by six major groups, including: (a) gold devaluation; (b) fiscal inflation; (c) banking reform and credit control; (d) silver schemes; (e) currency expansion; (f) miscellaneous proposals. Comparisons are to be made with reform proposals advanced under similar circumstances in the past.

The expected date of completion is June 1937.

<sup>1</sup> Ph.D. thesis, The University of Chicago.



