RESEARCH IN SECURITIES MARKETS

Financial Research Program
NATIONAL BUREAU OF ECONOMIC RESEARCH
PREFACE

Early in June 1944, the Special Research Committee of the National Association of Securities Dealers, Inc. proposed to the National Bureau of Economic Research that the National Bureau undertake an investigation of research needs in the field of organization and functioning of the nation’s securities markets. On June 21, 1944 the National Bureau’s Committee on Research in Finance approved the conduct of such preliminary discussions and conferences as might be helpful in considering the feasibility of the research investigation, and, if desirable, the exploration of the research needs of the field. This recommendation was reported on June 26 to the National Bureau’s Executive Committee, which expressed interest in the proposed exploration and authorized its conduct.

Three months were devoted to the preliminary survey, and on the basis of the results obtained the exploration was undertaken. As part of the exploratory work a survey was made of selected professional opinion on the problems of the securities markets and the needs for research. On April 18-19, 1945, a conference of 32 experts was held to discuss the results of the exploration. At the conclusion of the conference, the Exploratory Committee on Research in Securities Markets was appointed to formulate specific research recommendations, and to prepare a report for submission to the National Bureau’s Committee on Research in Finance.

In carrying out its assignment, the Exploratory Committee was asked to weigh the results of the survey of selected professional opinion, the conference discussions, and the research objectives of the National Bureau, and then to formulate its own judgment concerning research needed to supplement and enlarge existing scientific knowledge about the organization and functioning of the securities markets.
The work of the Exploratory Committee was substantially completed by the end of June 1945, and on July 16 its report was reviewed by the Committee on Research in Finance. After thorough discussion, in which suggestions were made for revisions or amendments, this Committee approved the report and recommended it for further consideration and action to the research staff, officers, and directors of the National Bureau. The National Bureau’s Executive Committee, which reviewed the report on October 10, unanimously regarded the recommended program as a matter of keen public interest.

Through the publication of the report an objective appraisal of needs for information relevant to securities markets problems is provided against which the research plans of organizations and of individuals may be reviewed. It is hoped that the report may stimulate research in this field.

The National Bureau of Economic Research welcomes this opportunity to express its appreciation of the interest and initiative shown by the Special Research Committee of the National Association of Securities Dealers in seeking an impartial approach to the ways in which research might contribute to the solution of problems of the securities markets. Individuals engaged in the securities business contributed generously, in time and in personal effort, to make the exploratory survey as productive as possible. In addition, the National Association of Securities Dealers, Inc. made a grant to the National Bureau which helped defray the cost of the exploratory survey and the publication of the report.

The National Bureau also wishes to thank all those who cooperated in the exploratory work by answering inquiries, preparing technical memoranda, and participating in conferences. Special acknowledgment is due the members of the Exploratory Committee, who gave freely of their time and energy in the preparation of this report.

Ralph A. Young
Chairman pro tempore
Committee on Research in Finance
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SUMMARY OF COMMITTEE RECOMMENDATIONS

After careful consideration of the problems and needs for research in the field of organization and functioning of the securities markets, the Exploratory Committee on Research in Securities Markets recommends the following group of studies:

I. Survey of the Activities and Institutions of the American Securities Markets
II. The Securities Markets, Savings, and Capital Formation
III. The Transfer Function of the Securities Markets
IV. The Securities Markets in the Financing of Business Enterprise
V. The Securities Markets and the Investor
VI. Relation of Government to the Securities Markets
VII. Functioning of the Securities Markets in the American Economy

The seven studies together constitute a plan of needed investigation of fundamental and long-range problems of the securities markets. The Committee recognizes that, because of the broad scope of the studies, some adjustment in the general plan may prove desirable or expedient in order to carry out the recommendations and to coordinate the work with other economic research. The cooperation and active participation of investment banking, brokerage, and securities houses, other financial institutions, public agencies, and university and independent specialists will be essential for the successful prosecution of the plan.
IMPORTANCE OF THE SECURITIES MARKETS

A large fraction of the accumulated wealth of the American people is represented by negotiable debt or equity securities. More than ten million individuals directly own stocks of American business corporations, and millions more hold government or corporate bonds and notes. In addition, nearly everyone has an indirect interest in the securities markets through securities in the portfolios of insurance companies, savings banks, commercial banks, investment companies, and endowed institutions.

The performance of the securities markets affects the volume of employment in the country and the stability of national income, since a significant part of the additions to the nation's capital is financed by the issuance of securities and since the valuation and liquidity of securities affect the public's disposition to spend and invest. The functioning of the markets, moreover, influences the terms upon which businesses and government can obtain financing, and hence is an important factor in the development of new industries and in the growth of major industrial areas. The efficiency of the mechanisms for financing the reconstruction and development of foreign countries through offerings of securities to American investors may have a direct bearing upon the future peace and prosperity of the world.

DEVELOPMENTS FOLLOWING WORLD WAR I

During the past thirty years the American securities markets not only have expanded tremendously but also have undergone far-reaching changes. As a result of the financing of the first World War, millions of people who had never before owned securities became government bondholders, and thus "security conscious." There was a dispersion of stock ownership and a growth in trading activity during the prosperous twenties, an era that ended in the great bull market of 1928-29.
The period of the thirties, ushered in by a catastrophic collapse of security prices, was one of relatively low capital formation but of continued dispersion of stock ownership. Federal regulation that affected the issuance of and trading in securities was inaugurated, and federal taxation of personal and corporate income was sharply increased. As the decade ended, the world was plunged into war. Over the six war years deficiencies developed in the nation's industrial plant, housing, and consumer durable goods, while obsolescence and war damage took heavy toll of the capital assets of Europe and Asia. At the same time, national income and money savings of the American people rose to unprecedented levels, a new pattern of distribution of income and saving emerged, the federal debt rose to almost three times the total amount of private and nonfederal public debt, and the sale of government obligations to finance war again vastly increased the number of owners of securities.

PROBLEMS FACING THE SECURITIES MARKETS AFTER WORLD WAR II

In the postwar years governmental bodies and business enterprises, both domestic and foreign, may seek funds on a scale unparalleled in peacetime. Savings of the people in these years, together with those already accumulated in liquid form, may be offered in large amounts for investment through the securities markets. In the process of transmuting savings into productive capital, difficult transfer problems will arise. Other transfer problems will arise in response to constant readjustments in investor portfolios and holdings of liquid funds, the debt management policies of the federal government and other governmental units, and the capital structures of private securities issuers. Moreover, under these circumstances additional burdens of investment administration will be incurred by all institutions in the markets. Are the American securities markets prepared to meet these demands and through efficient
Few of the major problems confronting the securities markets can be resolved by reference to material at hand, notwithstanding the accumulation over the past fifteen years of masses of data and the publication of numerous monographs bearing upon the problems. A broad-based and fundamental analysis of the structure and operations of the American securities markets in the national economy is still lacking. Consequently, members of the industry do not have sufficient factual information for planning future operations; legislative and supervisory bodies and the industry often do not have satisfactory perspective for judging how particular regulative proposals may affect the organization and functioning of the markets; and the general public is without an adequate basis for understanding the role of the markets in the economy.

MATERIALS AVAILABLE FOR RESEARCH

Research that is both comprehensive and fundamental is now feasible because it can build upon broad foundations already laid. The basic information available includes the following:

Registration statements and statistics on the securities markets and security offerings collected by the Securities and Exchange Commission since 1934

Data of the national securities exchanges and the National Quotation Bureau on price quotations

Records of prices, dividends, and yields of common stocks listed on the New York Stock Exchange, 1871-1941, assembled by the Cowles Commission

Estimates of the amount and distribution of national income and the amount and character of capital formation, prepared by the National Bureau of Economic Research and the U.S. Department of Commerce

Estimates of the amount and composition of national savings since 1937, prepared by the Securities and Exchange Commission

Data for recent years on the ownership of the federal debt compiled by the United States Treasury

Data on the ownership of private security issues compiled by Standard and Poor's Corporation
Banking statistics of the Board of Governors of the Federal Reserve System

Records of the characteristics and market experience of domestic corporate bond offerings since 1900 assembled by the National Bureau's Financial Research Program

Investment experience records on foreign bond offerings collected by the Institute of International Finance of New York University

Extensive samples of financial statements of large and small corporations, some of which extend back to 1903, compiled in connection with studies conducted by the National Bureau's Financial Research Program

*Statistics of American Listed Corporations* of the Securities and Exchange Commission

Data on capital gains and losses compiled by the Bureau of Internal Revenue

Statistical compilations of corporate financial data by the Office of Price Administration, covering primarily the years of World War II

*Statistics of Income* and other data on corporate and personal income and estate tax returns compiled by the Bureau of Internal Revenue

Interstate Commerce Commission financial data for railroads

Federal Power Commission and Federal Communications Commission statistics for public utilities, together with the statistics in this field compiled by the public utility commissions of various states

Studies of consumer expenditures for selected years by the Bureau of Labor Statistics and other federal agencies

Records and files of the National Association of Securities Dealers, the Investment Bankers Association, the New York and other stock exchanges, and the Securities and Exchange Commission

Information available in the files of leading brokers and investment banking houses

Financial reports of insurance companies, investment companies, and other institutional investors

Numerous time series related to the securities markets collected by the Business Cycle Unit of the National Bureau of Economic Research
Special studies, many of which are unpublished, by the staffs of federal financial agencies, bearing on the functioning of the securities markets

Many monographs dealing with special phases of transactions in securities

STUDIES RECOMMENDED BY THE COMMITTEE

I. SURVEY OF THE ACTIVITIES AND INSTITUTIONS OF THE AMERICAN SECURITIES MARKETS

Purpose
To describe the contemporary structure of the securities business in the United States and to trace the development of the business since 1900.

Tentative Outline
General structure of the securities business
Methods of underwriting and distributing new securities
Organization of the securities underwriting and distributing business
Volume, costs, income, and capital of the securities underwriting and distributing business
Methods of trading in securities
Organization of the exchanges and the over-the-counter markets
Volume, costs, income, and capital of the securities trading business
Other activities of the securities and investment banking business
Investment banking activities of other financial agencies
Role of bank credit in securities distribution and trading
Changes in the American securities business since 1900

Suggested Development of Study
(a) Description of contemporary activities, methods of operation, and personnel of each type of institution participating
in the securities markets, and, subject to the limitations of obtainable data, study of the capital, operating income and expenses, and net returns of these institutions.

(b) Analysis of the extent to which specialization of functions or a combination of functions exists among institutions, and of the ways in which the different institutions are interrelated.

(c) Study of the use of bank credit in financing the distribution of securities and trading activities in the securities markets, and of changes in the organization of banking facilities with reference to such financing.

(d) Survey of the development of the American securities business since 1900 against the background of major economic trends, changes in legal conditions, and shifts in the country's international financial position, to reveal changes in functions and organization which have occurred.

Materials for Research

For the description of the contemporary structure of the securities business two main sources are suggested: (1) existing data, such as materials collected by the Securities and Exchange Commission and the stock exchanges; (2) data assembled by special surveys, to be undertaken by the staff that may conduct this study. The primary object of the special surveys would be to supplement the materials already available and to obtain information on (1) methods of operation, capital, operating income, expenses, and returns of investment bankers and securities dealers, (2) the personnel of investment banking houses and securities dealers, (3) the volume of trading and the methods of operation on the exchanges and in over-the-counter markets, and (4) interrelations between different institutions that comprise the securities business.

Available banking and securities markets data, published hearings of congressional committees, materials in the files of the Board of Governors of the Federal Reserve System and the Securities and Exchange Commission, and field interviews
would provide information for the analysis of the role of bank
credit in the functioning of the securities business.

The long-term analysis of the securities business could be
based upon various published materials, unpublished informa-
tion in the files of the leading investment banking and securi-
ties houses and stock exchanges, the corporate bond records of
the National Bureau's Financial Research Program, and the
common stock records of the Cowles Commission.

II. THE SECURITIES MARKETS, SAVINGS, AND CAPITAL
FORMATION

Purpose

To identify and measure basic factors of supply of and de-
mand for capital funds which have shaped the development of
the securities markets since 1900.

Tentative Outline

Sources and volume of money savings
Sources and volume of demand for capital funds
Flow of money savings into government and private securi-
ties
Functions of the securities markets, the banks, other finan-
cial institutions, and international capital movements in
the process of capital formation
Individual investment of savings vs. institutional invest-
ment of savings
Effects of institutionalization of the savings flow on "risk"
investment
The problem of forecasting the volume of savings and of
security offerings

Suggested Development of Study

(a) A statistical analysis of money savings. The first step
proposed is a critical appraisal of methods that have been ap-
plied in the estimation of money savings for recent years,
and possibly the revision of these estimates in the light of this appraisal. The second step would be the development of new annual estimates of national money savings for earlier years—at least back to 1920, and if feasible back to 1900. Next, the trend and cyclical fluctuations in the estimated volume of money savings would need to be measured and related to the movements of national income, bank credit, interest rates, security offerings and prices. A final part of this statistical analysis, based on data for recent “bench-mark” years, should deal with the contribution to total money savings made by (1) individuals or families in different income brackets and in major occupational groups, (2) businesses of different industry and size classes, and (3) various government agencies.

(b) An analysis of the demand for capital funds. As a starting point, an attempt should be made to trace how total demand has been affected since 1900 by the growth of the American economy, major structural changes within it, developments in the legal forms of business enterprise, changes in financial policies of business management, changes in the role of government in the economy, and international financial developments. A second step might be to trace, so far as available data permit, the broad outlines of how total demand has been met by different sources of capital funds, such as domestic issues, foreign investment in American securities, direct loans from financial institutions, direct investment by individuals, and retained business earnings. Next, changes in the total demand for funds and in the components thereof should be related to changes in national income and other relevant factors; the study of such relationships, however, would necessarily be restricted in scope, since the data relating to the demand for funds would be much less complete than those for supply.

(c) Following this analysis a special study of the proportion of savings flowing directly, and indirectly through financial institutions, into securities investment is suggested. Examination would be made of the role of the securities markets,
the banks, other financial institutions, and international capital movements in the process of capital formation.

(d) Changes in the proportion of savings flowing through financial institutions should be studied with reference to legal and institutional restrictions affecting institutional investment policies, to determine the effects of these restrictions on the availability of funds for "risk" investment.

(e) Finally, a critical analysis might be made of the problems involved in forecasting the volume and composition of savings and the volume and composition of security offerings.

Materials for Research

The estimates of savings made by the Securities and Exchange Commission since 1937 provide a starting point for this study. Annual estimates back to 1920 could probably be developed from existing statistical series, but estimates extending back from 1920 to 1900 would have to be constructed from materials assembled from scattered sources and from data collected specifically for this project, e.g., stock issues before 1920. The Study of Consumer Purchases, 1935-36, of the Bureau of Labor Statistics, and also one covering 1941 and the first quarter of 1942, yield a basis for analyzing sources of savings by individuals, but the cooperation of interested public agencies would possibly be needed to compile some supplementary data through special surveys of samples of individual savers. Existing statistics of financial institutions would serve as a basis for tracing the growth of institutional savings.

Analysis of the demand for capital funds could rely mainly on materials already assembled by the National Bureau's Financial Research Program and other agencies, but some gaps in information might need to be filled by primary compilations. Materials pertaining to legal regulations affecting institutional investment could be drawn from Part VI of this program of studies. Published articles and unpublished memoranda containing estimates of the volume of future savings and security offerings, and setting forth methods by which the
estimates have been derived, would constitute the raw materials for a critical appraisal of problems of forecasting in this field.

III. The Transfer Function of the Securities Markets

Purpose

To examine the transfer function of the securities markets, to compare the exchange and over-the-counter markets in regard to the transfer function, and to appraise the advantages and disadvantages of ready marketability from the standpoint of the functioning and stability of the economy.

Tentative Outline

Marketability with respect to issuers, financial institutions, and individual investors
Tests of marketability
Growth in importance of marketability
Organization and operations of securities exchanges
Organization and operations of over-the-counter markets
Secondary distributions of outstanding securities
Comparison of exchange and over-the-counter markets for outstanding securities

Suggested Development of Study

(a) An analysis of the advantages of marketability to issuers of securities and to owners or managers of wealth. Marketability for different types of securities and for securities of different classes of issuers would need to be tested by measurements of the breadth and closeness of the market and the continuity and stability of price behavior for a recent period and for selected periods in the twenties and thirties. The importance to the American economy of marketability for outstanding securities should be examined, and the marketability of securities compared broadly with that of other types of assets.

(b) A comparison of the functioning of the organized ex-
changes and the over-the-counter markets, in which particular emphasis would be given to the contributions and costs of these markets to the economy at large. An attempt should be made to identify the factors that make for marketability both on the exchanges and in the over-the-counter markets, and special attention directed to the extent to which securities of moderate-sized enterprises are traded in these markets. Consideration would also need to be given to the safeguards available to issuers and investors, and the relation between services provided and commissions or price spreads.

(c) An examination of the methods for providing marketability for large blocks of securities, particularly in relatively thin markets. The use of active selling efforts to redistribute blocks of issues without price impairment should be analyzed.

Materials for Research

A certain amount of the statistical data required has already been compiled by the Securities and Exchange Commission, the New York Stock Exchange, and the National Association of Securities Dealers. In addition, data would have to be obtained through questionnaires to brokers, dealers, securities exchanges, and issuers. Special compilations of price and trading data for different types of securities and for securities of different classes of issuers would need to be prepared for the measurement and testing of marketability. For an analysis of local exchanges and over-the-counter markets, field research would be necessary.

IV. The Securities Markets in the Financing of Business Enterprise

Purpose

To determine from the point of view of management the comparative advantages and costs of financing business enterprise through the issuance of securities, and to find out what special considerations of business financial policy influence management decisions to finance through the offering of securities.
Tentative Outline

Alternative sources of funds of business enterprise, by industry and size of business unit
Advantages of alternative sources of capital funds from the point of view of management (cost, speed, flexibility, credit rating of issuer, and disclosure of affairs of issuer)
Relation of security offerings (new and refunding) to business activity
activity and price behavior of the securities markets
investment yields
business profits and retained earnings
business liquidity
business asset expansion
Relation of investment banker to issuer
Role of the investment banker in corporate investment operations, mergers, consolidations, and reorganizations
Private placement and term lending vs. public offering
Competitive bidding for securities
Problem of financing medium- and small-sized business units through the securities markets

Suggested Development of Study

(a) A description, by industry and by size of business unit, of the changes in sources of funds employed by business enterprise, supplemented by an analysis of factors influencing management decisions with respect to the use of alternative sources of financing. Consideration should be given to the relative advantages and disadvantages of various types of internal and external funds, and to the requirements of the different suppliers of funds. The problem of financing medium- and small-sized business units through the securities markets should be the subject of special inquiry.

(b) A statistical analysis of cyclical and trend relationships between (1) security offerings for equity and debt purposes and (2) various factors that influence business financial poli-
cies and affect the volume and type of the offerings (e.g., business activity, activity and price behavior of the securities markets, investment yields, business profits, availability of accumulated internal funds, and business asset expansion).

(c) A detailed study of the character and nature of the relationship that exists between the issuer and the underwriter, focusing primarily upon the functions of underwriting but considering also other services performed by an investment banker for business enterprise. Private negotiation, and compulsory competitive bidding in the industries to which it has been applied, need careful examination from the standpoint of business enterprise.

(d) A special examination of the functioning of investment banking and other securities markets facilities in corporate investment operations, mergers, consolidations, and reorganizations, particularly in the case of corporations whose securities are publicly held.

(e) An analysis of the competitive and complementary relationships between private placement of securities issues, term lending, and financing through the securities markets.

*Materials for Research*

For the description of the sources of financing for business enterprise, information would have to be collected directly from samples of business concerns and from case studies of a small group of companies representing different industries and size classes. To supplement these data various compilations of corporate financial data prepared by the National Bureau's Financial Research Program, the Bureau of Internal Revenue, the Federal Trade Commission, the Federal Power Commission, the Federal Communications Commission, the Interstate Commerce Commission, the Securities and Exchange Commission, and the Office of Price Administration could be used.

As a basis for the study of the relation between security offerings and various correlative financial factors, statistical materials are available in published sources and in the files of
public supervisory agencies, investment advisory services, and the Business Cycle Unit of the National Bureau.

Information published in hearings of congressional committees, briefs and research memoranda on file at the Securities and Exchange Commission, records made available by investment banking houses, and replies to direct inquiries addressed to issuers of securities would yield materials for analyzing (1) the relationship between the investment banker and issuer, (2) private negotiation and competitive bidding, and (3) the role of the investment banker in corporate investment operations, mergers, consolidations, and reorganizations.

Materials already assembled by the Securities and Exchange Commission and by the Financial Research Program, together with information obtained by field interviews and surveys, would provide data for the analysis of private placement, term lending, and public offerings.

V. THE SECURITIES MARKETS AND THE INVESTOR

Purpose

To investigate the preferences of different classes of investors, to describe typical methods by which investors' portfolios are managed, and to analyze investors' experience with principal types of securities.

Tentative Outline

Role of the securities markets in providing liquidity and in evaluating risk

Distribution of ownership of securities

Agencies managing, or advising on, security portfolios and their methods of operation (costs, flexibility, services rendered, results)

Information on security values: sources, utilization, and diffusion

Factors affecting investor selection of investments

Investors' experience with principal types of domestic and
foreign securities (current income, safety of capital, marketability)

Relation of investment bankers, brokers, and dealers to investors

Suggested Development of Study

A general analysis of the role of the securities markets in providing liquidity and in evaluating risk is suggested as the starting point of this study. This would need to be followed by a statistical examination of the present and past composition of the portfolios of groups of individual and institutional investors, with the aim of determining the preferences of different classes of investors; and then a study of the yield of different groups of investments, in order to obtain some objective indication of investor preferences.

Other phases of this study could be (1) a description of the typical methods by which investors manage their portfolios, and (2) a comparison of the methods and costs of operation of different types of agencies that professionally manage, or advise on the management of, investors' security portfolios, such as investment counsel, securities dealers, trust companies, and investment companies. The results of alternative management policies may be indicated by the performance of actual portfolios of selected types of institutional and individual investors.

Study might then be made of the kind, quality, and dissemination of primary and secondary information on securities, which is available to professional and to lay investors.

Surveys of samples of principal investor groups, individual and institutional, would be useful to determine (1) the sources and character of investment advice obtained, if any, (2) the degree of emphasis upon safety of capital in investment decisions, and (3) the influence of interest or dividend yields on investment choices.

A statistical study of investors' experience with domestic and foreign securities, covering a relatively long period, is urged.
Such analysis should include the investment performance of principal types of securities and of securities of different classes of issuers.

A concluding phase of the study might evaluate, in the light of the findings of the foregoing investigations, the changing relationships of investment bankers, brokers, and dealers to different types of investors.

Materials for Research

Though much of the data available for research is scattered, and some in need of rearrangement, the analysis of investors' portfolios could draw upon a wide range of material, e.g., the special survey of 1936 dividend income by the Bureau of Internal Revenue; the annual estate tax statistics of the Bureau of Internal Revenue; the (as yet untabulated) survey of about 100,000 estates probated in 1928-29 and 1938-39, sponsored by the Bureau of Foreign and Domestic Commerce; the current statistics and listing of the portfolios of most types of institutional investors. Additional material would be needed on the portfolios managed by trust companies and investment counseling organizations, and on their charges for investment services. The material on costs of operations and on investment results of the main types of institutional investors would have to be obtained largely from the institutions themselves.

The survey of samples of principal investor groups could be patterned after methods developed and applied in connection with the wartime borrowing operations of the federal Treasury, although special adaptations of this survey technique would be required. Such a survey should be carried out with the collaboration of interested public agencies as well as of members of the securities business.

The study of investors' experience could be based on the corporate bond records of the National Bureau's Financial Research Program, the common stock records of the Cowles Commission, the analyses of investment companies' perform-
tion of the securities markets, have had an indirect influence upon their operation. These policies may be divided for investigational purposes into two groups: (1) debt management and other fiscal policies, and (2) credit and monetary policies.

(e) A survey of the magnitude, nature, and character of direct participation of the government in activities which compete with or complement particular institutions in the securities markets, focusing the survey upon the role of government as lender or investor and as enterpriser.

Materials for Research

With respect to direct federal regulation and supervision, the primary data available for analysis are official documents of the Securities and Exchange Commission and the Interstate Commerce Commission; in addition, field and questionnaire surveys would be needed to develop information on adjustments in the securities business resulting from regulatory and supervisory policies. For a study of state regulatory and supervisory activities, official documents also provide primary data, but supplementary information would have to be obtained directly from investment bankers, securities dealers, and officials of regulatory and supervisory agencies, in order to trace the effects upon activities and practices in the securities business and upon the organization and functioning of the securities markets. Records of the New York and other stock exchanges and of the National Association of Securities Dealers constitute the primary source material available for a study of self-regulation as a complement to, or substitute for, public regulation.

The phases of the study dealing with federal debt management and fiscal policies, federal credit and monetary policies, activities of federal lending and investment agencies, and the functioning of the International Monetary Fund and International Bank for Reconstruction and Development, would make extensive use of official records and reports. The cooperation of public and private agencies in providing access to unpublished research materials would be essential, however, for successful prosecution of the study.
VII. Functioning of the Securities Markets in the American Economy

Purpose

To re-examine, in the light of the findings of Studies I to VI, the role of the securities markets in the economy and to indicate the character of the emerging problems of the markets.

Tentative Outline

Contemporary functions of the securities markets
Changes in functions since 1900
Changing importance of public and private securities
Changing status and interests of the private investor
Appraisal of functions of the securities markets
Interrelations between business activity and activity in the securities markets
Effects of changing business financing policies on the functioning of the markets
Emerging problems of the securities markets

Suggested Development of Study

The first step in this study should be a description of the contemporary functions performed by the markets (a) for the economy, in providing both funds for capital formation and an outlet for savings, in facilitating the transfer of ownership of wealth, and in aiding the international movement of investment funds; (b) for business management, in raising capital, in maintaining liquidity, and in achieving a balanced capital structure; and (c) for investors, in the administration and evaluation of their wealth placed in securities. The second step should be to trace changes in these functions since 1900; the third, to analyze the varying importance of public, especially federal, and private securities in the markets and the effects of the altered composition of the outstanding securities in these broad classes upon the functioning of the markets; and the fourth, to describe the changing status and interests of the private investor.
universities, government agencies, and financial institutions were asked for their comments and suggestions.

The individuals from the securities business were chosen with the advice and help of the officials of the National Association of Securities Dealers and the New York Stock Exchange; they included representatives of major market activities and of principal financial centers of the country. One group of twenty-eight was asked

To describe the character of their business
To discuss recent changes in the markets affecting the character of their activities
To specify the basic problems currently facing the securities business.

A second group, numbering fifty-five, was asked

To give their judgment on the longer-run social and economic forces that have shaped the development of the markets in recent decades
To evaluate the adequacy of existing security market facilities
To indicate the fundamental problems now confronting the markets.

The economists were selected by the central research staff of the Financial Research Program. They included those who have made specific contributions to the scientific literature of the field, specialists currently engaged in research on security market problems, and economists recognized for their general knowledge of financial structure and organization. They were asked

To give their views concerning the principal economic trends affecting the development of the securities markets both in the United States and abroad
To evaluate the adequacy of existing market facilities
To indicate the basic problems of the markets from the standpoint of the national economy
To outline any specific suggestions for research that they might care to make.
Fifty-seven representatives of the securities business and thirty-six economists sent replies. Those from the representatives of the business showed a wide variation of activities engaged in by respondents; diverging views as to changes in the markets and forces causing them; and a broad range of judgments as to the adequacy of existing market facilities and the problems facing the securities business. Responses from the economists likewise expressed widely differing interpretations and views on the questions put to them. They also contained numerous suggestions for specific research undertakings to provide information useful in meeting urgent problems confronting the securities markets and to fill gaps in knowledge about their organization and functioning.

The results of the survey were summarized by the Exploratory Committee's Secretary in a special digest, and on April 18-19, 1945, a planning conference on research in the organization and functioning of the securities markets was held at the University Club, New York City, to discuss the problems of the investment banking and securities business against the background of this survey of professional opinion. The conference was attended by technical experts in the securities business, a group of individuals engaged in the business, and the central research staff of the Financial Research Program. After the two-day discussion the conference recommended that an Exploratory Committee be constituted to formulate a plan of needed research in the light of the conference discussions and its own judgment.

A first draft of a report was prepared by a subcommittee consisting of Neil H. Jacoby, Chairman, Willis J. Winn, Secretary, Jules I. Bogen, John F. Fennelly, Raymond W. Goldsmith, W. J. Carson, and Ralph A. Young, and a revised draft incorporating the suggestions of all members of the Exploratory Committee was submitted to the National Bureau's Committee on Research in Finance on July 16, 1945. In approving the report, the Committee on Research in Finance offered a number of specific suggestions for amendment or revision, all
of which have been incorporated in this final version. The report is thus a collaboration of the Exploratory Committee and the Committee on Research in Finance.

Respectfully submitted,

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2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

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5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.

6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.

7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

(Resolution adopted October 25, 1926, and revised February 6, 1933, and February 24, 1941)
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