designed to illustrate the manner in which these major areas may be broken down for analytical purposes.

Comprehensive Survey of the Financial Structure

As indicated above, a comprehensive survey of the financial structure as a whole is urgently needed to provide a background for the analysis of financial problems and to give perspective to proposals for changes in the financial structure. Before we, as a society, can make great progress in the reform of our financial structure, before we are in a position to provide respectable answers to the questions, 'What are the essential financial functions?' and 'What social institutions or organizations are best fitted to perform them?' we need relatively satisfactory answers to the more elementary questions, 'What financial services are now being rendered?' and 'What institutions and organizations are now providing these services?' In other words, we need, as a basis for further analysis of the functioning of our financial institutions, a much more comprehensive picture of the current scope and range of their activities.

This survey must not be limited to central banks and commercial banks where our information is now relatively most complete. It must include the activities of savings banks, building and loan associations, Morris Plan banks, mortgage banks, investment banks, insurance companies, finance companies, and underwriting houses. It must be sufficiently comprehensive, furthermore, to show not only the structure and functions of these various types of financial organization taken individually, but also their relative importance and their interdependence. Without this basic financial survey, comprehensively outlined and filled in with some detail, it is impossible to come to any well considered opinion concerning many of the most pressing financial problems of today. For example, how can we assess the relative importance of fluctuations in instalment financing during (1) the prosperity of the 'twenties, (2) the depression of the early 'thirties, (3) the current revival—if we are only dimly aware of the dollar volume of funds involved, and in no position to contrast incomparably larger concurrent fluctuations in real estate financing? How can we arrive at a balanced judgment concerning the present low demand for commercial loans at our banks if we do not know the extent to which other types of institution are materially expanding their loans in this field? How can we discuss reorganization of the banking structure when we do not have the facts by which to judge the adequacy of banking facilities in many communities and do not know the extent to which local demands for financial services justify the maintenance of different types of local financial institution?

In the opinion of the Committee this comprehensive survey should start with the aggregate needs of the community for various types of financial service. It should seek first to answer the question, 'What are the financial commitments—the financial assets, liabilities, and other equities of the people of this country?' For example, 'What are their aggregate holdings of cash, demand deposits, savings deposits, shares in building and loan associations, investment securities, etc.?' and 'What are their aggregate commitments or debts, on mortgages, instalment paper, etc.?' So far as possible these aggregates should be broken down by business or consumer groups, income groups and by geographic areas. From this basic material a comprehensive picture of financial organization can be built up. In the analysis of the various financial operations that must be performed and the more or less specialized institutions through which they are executed financial services that represent activities conducted directly with the public should be differentiated from those financial services which give flexibility and liquidity to the financial structure.

Both types of service are essential to a well ordered financial system, but the standards by which their operation are to be judged differ greatly. Among the first are included those services which are performed by financial organizations in dealing with the general public—neighborhood banks, savings banks, building and loan associations, etc., which act in the main as retail financial outlets serving the public. The quality of credit, its soundness, and its relative availability for competing needs are determined to a considerable extent by the credit standards to which these institutions adhere and the credit procedures they apply. The second type of financial service is performed mainly within the organization of finance—by the Federal Reserve banks, correspondent banks, acceptance and discount houses, security exchanges, etc. They represent the coordinating elements, the nerve centers of our entire financial mechanism. In recent years the background within which they operate has changed greatly, requiring in many cases a new statement of their responsibilities and functions. For example, central banks, ever since the War, have been asked to assume an increasing degree of responsibility for the maintenance of economic as well as financial equilibrium. Under the pressure of these demands they have developed new instruments of action. The area of activity covered by central banking operations at present, in consequence, differs radically from that which was accepted as standard as late as twenty, or even ten years ago.

The Committee is convinced that in the basic picture thus obtained many of our financial problems would appear in a new perspective. It would throw light on the aggregate volume of debts, on the distribution of debt burdens among different geographic areas and different economic groups, and on relationships between savings, investment and consumption. It would also make it possible for us to distinguish between those financial repercussions which are the direct result of faults in the organization of finance and those which merely reflect more comprehensive forces sweeping the entire economic structure. Phenomena, for example, such as the wiping out of the purchasing power of large groups of consumers during the brokers' loan liquidation in 1929, the freezing of the mortgage market in 1932, and the banking panic of 1933, though they were precipitated in large part by the immediate economic circumstances, reflect primarily faults in the organization of finance. Phenomena, on the other hand, such as the Florida land boom, the War boom in agriculture, and the post-War expansion in urban real estate, originated outside the financial structure, and the resulting dislocations would probably have given rise to repercussions of some magnitude under any organization of finance. In such cases the problem presented for analysis is the extent to which our financial organization serves to counteract or to accentuate such tendencies. Finally, the material made available should reveal the competitive milieu within which financial institutions function and should indicate the extent to which facilities for the rendering of financial services are inadequate or redundant.

The central staff should not limit its plans to drawing a broad, cross section picture of our financial structure as outlined above. In order that this picture may be maintained up to date, the staff should seek also to provide for a current recording of basic changes in its major com-