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SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

STEWART, W. W.

Biographical

Two reports of above dates on work of the Economics Group.*

Filed in Vertical File under School of Economics and Politics, "S".

* Second (10/19) version of notes of seminar on unemployment
Cambridge Report.

See P6 for Report on Nothing to do

See P7 for justifying denying that getting etc. that is from
of NBER. Without NBER IAS would have had to set up
staff etc. Without IAS NBER would have had to provide
place for theoretical studies - analysis - interpretation

S file, Reports, Memoranda, 1943-4 School of Econ. & Pol. IAS

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November 26, 1943

Memorandum

To: Dr. Aydelette
From: W. W. Stewart
Subject: Work report of the Economics Group

This memorandum is a mid-year report of work that has been completed or is now in progress in the Economics Group. Since some of the projects have now been terminated, it seems an appropriate time to report upon them in some detail.

1. Clarence J. Long

Mr. Long, after having been a member of the Institute for more than two years, resigned his membership in the middle of October to accept a commission as lieutenant (j.g.) in the U. S. Naval Reserve. Since this action had been anticipated for some time, his work was in such shape that parts of it could be brought to a conclusion and other parts left so that work could be resumed after the war. The manuscript of Mr. Long's study on "The Labor Force in Wartime America" has gone to the printer and will appear as an Occasional Paper in a series published by the National Bureau of Economic Research.

Before leaving Mr. Long prepared an outline of the work accomplished. A copy of this together with a statement of Receipts and Expenditures of his project from July 1, 1941 to November 15, 1943 are attached to this memorandum.

In notifying Mr. Long of the renewal of his membership, the Director's letter of May 14th said:

"Should requirements of military service cause your absence for a part of this time, the remaining portion of your membership may be continued upon the termination of your period of service in the Army."

Under this arrangement there remains eight months of Mr. Long's unexpired membership which is available to him at the close of the war. It may be advisable to set aside or earmark a sum of money from our fund adequate to cover this commitment.

2. Mr. Long's research assistants

Three assistants have been working with Mr. Long. Mr. Landau, whose services were paid for by the National Bureau of Economic Research, resigned on September 30th to take up work with the League of Nations here in Princeton. Mr. Czeczowiczka remained for a month after Mr. Long's departure (until November 15th) in order to catalogue and file the statistical material which is now stored at the Institute. On November 1st Mr. Schiffer's work on Mr. Long's project came to an end. On this date he began work, on a month to month basis, on the statistical and chart material for the Economics Group. In making this arrangement with Mr. Schiffer, it has been kept entirely clear that the Institute has assumed no long-time commitment and that he should continue to search for other employment.

3. Jonathan Mitchell

Mr. Mitchell is engaged in writing a first draft of his study on the Senate and the Treaty fight. This is being written on a daily installment basis and now totals approximately 60,000 words. The point of view is that

of a Washington correspondent and the report is based upon interviews with men still alive, detailed newspaper reports of the period, diaries, autobiographies and biographies. The purpose is to present in a single concrete instance and in adequate detail the actual operation of the Senate during the course of reaching a major decision. There is nothing I know of in political literature which undertakes to set down with as much richness of detail the actual movements of opposing leaders, the gradual emergence of issues and the divisions and combinations that finally result in decision. I hesitate to indicate a possible date of completion for this depends largely upon the extent of revision that may be required.

You will recall that at the time of Mr. Houghton's death Mr. Mitchell was collaborating with him in the editing of a diary which Mr. Houghton had kept during his ambassadorship in Berlin. The manuscript of this diary is still in our hands and no final decision has been reached concerning its publication. Some members of Mr. Houghton's family felt that it would be wiser to postpone publication until after the war and I am inclined to share this view. I feel the Institute should not do any further editing on the diary until the family has taken a final decision concerning its publication and I am hopeful that such a decision may be reached in the near future.

4. Valentine T. Bill

Mrs. Bill has continued her study of Russian economic and social development, chiefly under the guidance of Professor Warren. On November 19th she gave a second lecture here at the Institute covering one of the periods in Russian history. She has also continued teaching the Russian language and now has two classes that meet each week. During the year she has also been

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of some assistance to Professor Earle in the preparation of a chapter in his book on Modern Strategy. Mrs. Hill understands that it is not our intention to recommend a renewal of her assistantship when the present appointment expires.

5. Vera and Friedrich Lutz

In the early months of their appointments, Mr. and Mrs. Lutz worked at Hillside (the National Bureau of Economic Research) with the statistical material collected by the Financial Research Program. The purpose was to outline a list of problems for investigation in the general field of corporate financial behavior and to become acquainted at first hand with the data available for analysis and interpretation. Early in October a report was made setting forth ten such problems and suggesting methods of attack upon them.

In addition to assisting in this work, Mrs. Lutz made an inventory of unpublished manuscripts now at the Bureau in order to avoid any duplication of investigation and completed a draft of a chapter entitled "Post-War Reconversion and the Role of Corporate Reserves." After consultation with us and with a good deal of reluctance, Mrs. Lutz decided to resign her assistantship in the Institute and rejoin Mr. Loveday's staff, which she did on November 1st.

Mr. Lutz continued at Hillside during part of November and has brought to completion a study on "Corporate Cash Balances in Peace and War." He is to present a paper on this subject before the Committee on Research in Finance at a meeting to be held in New York on December 3rd. This is not only a subject of quite urgent current interest, but also one on which there has never been adequate quantitative data or satisfactory interpretation.

Mr. Lutz is now back at the Institute and will remain here, except for occasional visits to the National Bureau, for the period of his membership. His plan is to advance as far as possible the theoretical analysis of his problem and to use the staff of the National Bureau in assembling the empirical data for testing and analyzing the theory. This is in line with earlier undertakings where the Institute has cooperated with "Hillside," the usefulness of which has now been tested by experience.

6. Hattie Wise

Miss Wise, in addition to acting as secretary to the Economics Group, has been doing editorial work, not only on manuscripts prepared by members of the Institute, but also on documents of the National Bureau. Two of these studies were a description of the organization and administration of the Corporate Bond Project, which was initiated by Mr. Biefler and conducted by the National Bureau. Others, which were more in the nature of editorial assistance than revision, were Mr. Hickman's study of the Term Structure of Interest Rates and manuscripts by Mr. Gottman and Mr. Gilbert.

7. Professor Warren

Mr. Warren's trips to the Treasury in Washington have now settled into a rather definite schedule. He leaves Princeton on Monday afternoon and is usually back at the Institute on Thursday morning. While no one can ever be sure what use is made of advice requested, I am sure the Treasury regards the advice it gets from economists at the Institute as competent and impartial and I feel that in present circumstances we are not in a position to decline requests made of us. Mr. Warren has continued his membership on the Economic History Committee, which held its autumn meeting here in Princeton on September 3 and 4.

3. Professor Stewart

For some months Mr. Stewart has not made trips to Washington, though he has occasionally been called upon for advice either by letter or telephone and some part of his time is devoted to the study of the banking and currency aspects of fiscal policy.

Both Mr. Warren and I have continued the practice which we began when we came to the Institute of reading over a range wider than economics, including history, political theory and philosophy. This arises from our belief that economics is too narrowly defined. Where this may lead us in the end is not now evident, but it is quite likely to influence our recommendations of members to the Institute.

Relation of the Institute to the National Bureau of Economic Research

In a report on the Financial Research Program of the National Bureau there was the following statement concerning cooperation with the Institute:

"From its inception the Financial Research Program has maintained close cooperative relations with the economics staff of the Institute for Advanced Study. Dr. Riefler was Chairman of the National Bureau's Exploratory Committee on Financial Research in 1937, whose report laid the foundation for the Program's work. From 1938 to 1942 he was Chairman of the National Bureau's Committee on Research in Finance, and participated in the planning and direction of Program research as a member of the Central Staff. Both Dr. Stewart and Dr. Warren have also collaborated actively in the work

of the Program, advising on the shaping of research plans and also consulting in the development of research studies. In addition, Dr. Warren has served since 1938 as a member of the National Bureau's Committee on Research in Finance.

"Two research associates trained in the Program's methods, Drs. David Durand and W. Braddock Hickman, held memberships in the Institute in 1940-41. The Program cooperated in the conduct of their research investigation by providing statistical materials, clerical assistance, facilities for consultation on research problems, editorial help, criticism and publication medium. During the current year, Drs. Friedrich and Vera Lutz are carrying on their research work as Institute members under a similar arrangement with the Program. Over the past year, Dr. Clarence Long, member of the Institute's economics staff, has conducted an investigation of the labor force in wartime with the collaboration of another section of the National Bureau."

The relation between the Institute and the National Bureau is of such mutual benefit that no question of our relative contributions arises. The essence of the relationship, as I view it, is that we are engaged in a common task though working with different instruments. If there were no National Bureau, the Institute would have to build up an expensive staff with clerical assistance and all the apparatus required for statistical investigation. If there were no Institute, those working at the Bureau who found the need for reflective study would have to search for an atmosphere similar to ours. Collaboration of the kind we now have between the two institutions makes it possible for a scholar to integrate quantitative and empirical knowledge with analysis and interpretation. It seems likely that in the future we will want to recommend arrangements for joint projects similar to those now under way.

For your information I am attaching a supplementary statement of the meeting on the Beveridge Report which was held under the auspices of the Economics Group.

Unemployment in the United States

Progress Report

Work AccomplishedPurpose of the Project:

Study the history of the unemployed in the United States since 1914 and determine the kind of people who have been out of work, their number, and when they have been unemployed in time relation to other important economic events. Draw from this history conclusions relevant to present day problems in economic theory and policy.

Course of action:

Estimate by months the number of unemployed in the United States from 1914 to the present, if possible by industry, age, sex and economic class. In order to do this, make similar estimates for both labor supply and employment, and determine the differences between them. Thus examine the history of the entire United States labor market over the past three decades.

Nature of Materials:

- A. United States censuses, made by home-to-home visit or by extraction from records of business firms.
- B. Special surveys of labor supply, employment and unemployment.
- C. Employment statistics for individual states and industries, collected periodically and continuously by federal, state and local government agencies, chiefly as a by-product of regulation of health, safety, and competition, or by business firms and associations, as a by-product of operation or regulation.

Progress to date:

- A. Concepts examined and related to the purposes of the study
- B. Material gathered, tested and analyzed

C. Estimates of labor force completed for 1914-1930 by

Age groups
Sex
School attendance, by sex
Marital status of women
Military status of men

D. Estimates of Employment completed for 1914-1930 cross-classified by
(except Domestic Service and Miscellaneous)

Economic class
Employers and self-employed
Professionals
Wage and salaried workers
Unpaid family workers

Industry (many of these have been estimated
by detailed sub-groups)

Agriculture	Public Utilities
Mining	Trade
Construction	Business Service
Transportation	Amusement and Recreation
Communications	Professional Services
Government	Miscellaneous

E. Detailed appendices on materials and method prepared and filed.

F. Estimates charted and compared with estimates available from
other studies (usually meager)

Publications:

"The Concept of Unemployment," Quarterly Journal of Economics, Nov. 1942; pp. 1-30

"The Labor Force in Wartime America," Occasional Paper No. 13, National
Bureau of Economic Research, November 1943, pp. 100.

Papers presented:

The War Labor Force in the United States, (Economic Discussion Group,
League of Nations, Princeton, N. J., March 16, 1943

Some United States Statistics Relevant to the Beveridge Plan, Institute
for Advanced Study, July 2, 1943.

The Meaning of Unemployment, Economics Club, Princeton University,
November, 1941.

Gross and Net Unemployment, American Statistical Association meeting,
December 1941.

Post-War Plans:

1. Complete the estimates of labor force and employment, after 1931, according to the method outlined.
2. Compute the number of unemployed each month since 1914 by subtracting the estimates of employed from the estimates of labor force.
3. Deal with the statistical and conceptual problem of the part-time unemployed.
4. Analyze the labor force, its unemployment and employment into cycles, seasonal movements and trends. Compare these and other labor market phenomena with outstanding events in the field of wages, incomes, unionization, government expenditure and so on, both in war and in peace.

Sir William Beveridge was invited to Princeton to meet with a group of economists, both English and American, under the auspices of the Economics Group at the Institute, to discuss the Beveridge Report. This meeting took place on July 1st and 2nd; the group members are listed below.

Mr. Leo Wolman (Chairman)

Sir William Beveridge
Mr. Arthur Burns
Mr. J. M. Clark
Mr. Henry Clay
Mr. Roger Evans
Mr. E. A. Goldenweiser
Mr. Alvin H. Hansen
Mr. C. O. Hardy
Mr. Clarence D. Long

Mr. Alexander Loveday
Mr. Dennis H. Robertson*
Mr. Sumner Slichter
Mr. Walter W. Stewart
Mr. Jacob Viner
Mr. Robert B. Warren
Mr. John H. Williams
Mr. Joseph H. Willits
Mr. Donald Woodward

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44-45

February 26, 1945

Memorandum

To: W. W. Riefler
R. B. Warren

From: W. W. Stewart *W.W.S.*

Re: Conference with Director, Tuesday, February 27th.

Dr. Aydelotte said that he would be glad to see us sometime tomorrow, Tuesday, February 27th. Here are some of the points we might consider with him.

- ✓ 1. Membership invitation to C. W. Everett
- ✓ 2. Invitation from the National Bureau for the Institute to nominate a director.
3. Invitation to Richard Stone and wife. (I suggest a copy *300 per mo to each + Will* of Stone's letter to W. W. R. be sent to Director so he may read it before the meeting.)
4. Invitation to Noel Hall - report on our conversation with Willits concerning it. *Economic Warfare*
- ✓ 5. The project of John Cooper for a study of the International Laws of the Air. Cooper has talked with Earle who has seen the memorandum and on this point Earle should be with us when we talk with the Director. We can leave the Cooper memorandum with the Director.
6. Twentieth Century Fund Project for a study of commercial policy, international investment and international monetary arrangements to be conducted by Buchanan, Lutz and probably Haley. If the Director approves, we can ask Dewhurst to come to Princeton to consider the location of the project here.* (See note re Natl. Bureau)
7. Memberships - 1945

Expiration of membership of Jonathan Mitchell March 31, 1945.

Arrival of Wilmerding, probably on March 1, 1945

Visit of Dr. Goldenweiser March 13-15. Do we extend invitation to membership/

Vera Lutz - N.B. - Room

Guggenheim fellows for 1945. Membership invitation to be limited to those working in Economics, such as Miss Timlin.

8. Appointments to the faculty - Do we wish to propose Jacob Viner as a member of the faculty in the School of Economics.

* Possibility of some part of the Financial Research Program of the National Bureau located in Princeton -- either one or two individuals for whom we could provide office space in the Institute, or larger scale project requiring space outside Institute. This should also be mentioned and discussed with Director under #6.)

(Fisher)
(Goldsunth)

Aut
Oct 1935

To: Dr. Flexner

From: Mr. Riefler

Subject: Program of work in Economics for the School of Economics and Politics of the Institute for Advanced Study

I have outlined briefly below the type of work which I would like to inaugurate in the School of Economics and Politics, and the facilities which would be required for an approach to the problem from this point of attack. In framing the program, I have tried to take into account, as objectively and impersonally as possible, the four following points of reference.

1. The plane of scholarship for which the Institute for Advanced Study seeks to conserve its resources

The Institute is not directly concerned with scholarship of the undergraduate or even the graduate level. As a minimum, it limits its work to the postdoctoral level, and within this broad field puts its emphasis on the encouragement of genuine productive scholarship at the frontiers of understanding.

2. The most promising fields for productive work in the Social Sciences

A factual approach to specific problems seems to me to offer the most advantageous opportunity for a genuine contribution by the Institute at the present stage in its development. In economics the traditional theoretical approach no longer commands the instinctive respect of important groups of scholars, despite the fact that it interprets phenomena in terms of a well-articulated and internally consistent body of doctrine. I feel that this has come about partly because events during the past two decades have given rise to sweeping changes in social and economic conditions on a larger and more devastating scale than our theoretical analysis was commonly understood to imply, and partly because a huge body of factual data has recently become available which constitutes a major challenge to the testing of our theoretical analysis. I would like, therefore, to concentrate for the present upon the explanation of some of these developments in terms of factual data now available.

3. The relevance of my own training and background to this work

My personal training is most highly specialized in the field of money and banking. From this central point of attack on economic and social problems I have acquired a considerable body of experience (a) in general financial problems, such as public finance and the scope and functioning of the securities markets and the mortgage market, (b) in data relating to economic fluctuations, such as changes in production, employment, trade, etc., and (c) in certain aspects of governmental problems relating mainly to the place of government in society. If my contribution is to be effective, the studies which I personally undertake or facilitate should not be scattered but should be concentrated for the most part in the fields where my experience is such that I can be reasonably satisfied that a creditable and useful piece of work will result.

4. The limitations of the resources which we can bring to bear

The resources of the Institute are ample for first class work provided we are modest in our approach. We will miss our opportunities if we undertake too ambitious a program. It is not our mandate to reform the world or rewrite the theoretical background of the social sciences as such. On a less grandiose plane we should not necessarily feel required to draw upon our resources to support all individual workers or specific projects which come to us, even though they fall within the limitations described above. The field to be covered is far too large for us to undertake a contract of this kind, either expressed or implied. To do so, in fact, would dissipate our resources, both intellectual and financial. Our primary concern must be, not only to undertake work on a high plane of scholarship, but also to limit ourselves within this area to efforts which are feasible, which promise a creditable outcome, and which fall within our range of competence.

Program

With these considerations in mind, I would like to concentrate my efforts for the present upon the organization of factual data for the understanding of economic problems, selecting key situations for analysis, where, from my own experience, I know that the requisite data for the clarification of understanding are either already in existence or can readily be obtained. Both my own work and that of members who might be

attracted here to work with me would be governed by the requirements of this type of approach. The following jobs to be done will illustrate what I have in mind.

- A. The banking crisis of 1929-1933 was accompanied by many of the phenomena which characterized earlier crises, such as the panic of 1907, and was followed by many of the same effects. It differed from earlier crises, however, with respect to one key point, namely, the availability of rediscount facilities in terms of which earlier panics have to a considerable extent been explained. In trying to stem the course of the crisis, most of the emphasis in 1931 and 1932, both at Washington and New York, was placed on the elaboration of further rediscount facilities, such as earlier experience had indicated was necessary. Finally, in 1933, there was substituted for this treatment, a program of bank-capital rehabilitation, the major details of which are only now beginning to emerge in official publications. In some respects, this experience was paralleled in the German credit collapse of 1931, where the same general type of treatment was also applied. I believe that this situation contains the materials for a major contribution to economic understanding. Now that the crisis is over, the secrecy which was imposed on all participants who were intimately familiar with the situation can be dispensed with and its essential characteristics can be analyzed for the benefit of economists. I would not attempt at first to aim at anything so imposing as an authoritative treatment of the whole banking crisis - that problem will be occupying the attention of economists for years to come. I would concentrate rather on specific aspects of the situation where I am satisfied (1) that a contribution can be made because of a lack of understanding of the facts, and (2) that the facts exist or can readily be obtained to illuminate the problem. Given these conditions, I would try to locate one American expert, and if possible also a German expert, to deal with the problem simultaneously. I would select these experts on the basis of (a) familiarity of contact, (b) technical proficiency, and (c) economic understanding. By bringing men of this calibre to the Institute as members for six months, or longer if necessary, and by creating an atmosphere in which they can distil the understanding they have gained for the benefit of economists, we will be contributing to productive scholarship at the frontier of knowledge in this field.
- B. A second opportunity for making a specific contribution of this type exists in the field of corporate finance. During the 1920's conditions were favorable to the building up of corporate cash balances upon a scale unprecedented in history, and also, I am inclined to believe, to an extent that was not contemplated by economic theory. I would like to attract a first-class member or worker, fitted by ex-

perience to deal with the problem, to explore the origin, use and something of the consequences of these funds. We know that from 1927 to 1929 they appeared on a huge scale in the security markets in the form of "loans to brokers from non-banking lenders", and as such constituted an abnormal source of funds with which our credit machinery was not fitted by experience to deal. It is more difficult to trace the effect of these funds after 1929 when they were withdrawn from the brokers' loan market, but I suspect that they continued to play an important role in subsequent credit developments, especially during the crisis of 1931-1933, when large-scale movements of funds from bank to bank in search of safety aggravated the instability of the banking situation. Now that the whole period has receded into history, I think that we can, if we approach the problem properly, secure access to records which will make it possible to analyze this movement and bring its main implications into the thinking of economists.

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The Institute
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C. The circumstances surrounding the departure of Great Britain from the gold standard in 1931 afford an opportunity for a somewhat different type of activity on the part of the Institute. In going over the literature covering this episode, I find a general assumption on the part of practically all economists that a serious over-valuation of the pound sterling in relation to other currencies constituted one of the basic causes of the crisis. Such data as is assembled to support this point, however, refers mainly to the pound in relation to continental currencies, and does not seem to me to be at all conclusive so far as dollar-sterling parities are concerned. A study to clear up a key point such as this would also fall within the type of work upon which I would like to see the Institute engaged. Price data is so difficult to manage objectively, however, that I am not sure such a study could be made. In cases such as this, consequently, I would like first to contact leading economists of different schools of thought, seeking their views on the problem and requesting their assistance in outlining the factual tests which they would consider valid. If it appeared, after such consultation, that such a study could be made, I would like to see the Institute in a position to participate in its execution.
- D. Finally, there are innumerable situations where economists are unaware of the significance to their thinking of data which is already available. The growth of factual data has been so rapid in recent years that all of us are guilty of resorting to inference and surmise where we might proceed in the light of knowledge. In going over economic literature, I find myself constantly wondering whether the author, when he made his analysis, was aware of certain data with which I happen personally to be familiar, or whether data subsequently developed would have changed his judgment. As a result, one cannot be sure of the extent to which apparently serious clashes of opinion among economists reflect genuine differences of point of view or merely deficiencies in their familiarity with relevant data. To

minimize this latter impediment to a more constructive common attack on our problem, I would like to undertake the establishment of a series of direct contacts with other economists by correspondence on a more elaborate scale than is commonly conducted. For example, when, in the case of a given writer, I find myself in doubt as to whether he was familiar with certain data with which I have been in touch, I would like to be in a position to organize the relevant material, but if it is undertaken objectively and continuously over a period of time as a major part of the Institute's activities, I believe it would repay itself many times over in gradually developing a more uniform approach to economic problems.

Comments

The foregoing examples are illustrations of the kind of approach which I would like to adopt. They would engage the activities of the Institute in economic problems at a level of genuine advanced study and would foster the development of intellectual contacts with productive scholars in this field throughout the world. The members brought to work at the Institute would be definitely above the average of the post-doctoral grade and on a par in many cases with the faculty. The scope of the program, furthermore, would at all times be within our control. We would be moving into situations where we could be reasonably confident of constructive results and would be in a position to expand or contract any given line of activity in accordance with its merits without regard to overly large prior commitments.

Cost of Program

The program can be inaugurated, I believe, without going beyond our resources. As it develops, however, it will be necessary for us to secure additional support from the Foundations. If we seek workers or members of the calibre indicated above, namely accredited specialists holding in

many cases key positions, we will have to maintain them at a rate of remuneration considerably higher than would be required for younger post-doctoral scholars. This cost, I would endeavor to cover by specific grants from the Foundations, which would, I believe, be anxious to support work of this promise. There is no provision, therefore, in the accompanying request for assistance to cover the cost of carrying these members. The Institute, on the other hand, must stand ready to supply the facilities for work of this calibre, not only in the form of adequate office space, equipment, and secretarial service, but also in the form of statistical facilities of a high order of competence. The accompanying memorandum outlines the cost of facilities of this order and would certainly be adequate for the remainder of the present academic year and the first part of the following year. Later, should the program develop as is hoped, additional office space would be required as well as a moderate further expansion of clerical and secretarial facilities.

Dissemination of Results

It is too early to hazard any definite plans for publication of the findings which will result from this program. We can, however, indicate the attitude from which we are approaching the problem. This attitude may best be expressed by stating that we do not look forward to an output of books as our chief means of disseminating our work. In general, we would not encourage the publication of studies until they had progressed to the point where the contents would constitute an authoritative contribution covering a major aspect of the field. We would seek to encourage, on the other hand, the immediate dissemination of the results of our work among all scholars to whom it would be profitable. This we would do through a heavy reliance on short memoranda covering very specific

points of analysis which we would endeavor to make available by direct contact or correspondence with economists elsewhere who are working on similar problems. If, by attacking our problems and disseminating our results in this way, we can help to develop a greater degree of common understanding and background among economists, we will have made an important collateral contribution to the effectiveness of the Social Sciences.

Vertical File

1939

12/13

SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

RIEFLER, WINFIELD W.

Biographical

AYDELOTTE, F.

Economics Program.

Filed in Vertical File under ^E"S" for School of Economics and Politics

See Below 1714139 to WWR

From Riefiler's files - See his letter 1/22/56 filed correspondence

(COPY)

December 13, 1939

Dear President Aydelotte:

You asked me, in the course of our conversation this morning, to draw up a program outlining the type of activity which I think the economics group at the Institute should follow. I know of no better way to meet this request than (a) to submit the attached exhibits, (b) to describe the circumstances under which they were written and (c) to indicate the extent to which the subsequent experience and developments have modified views and recommendations there set forth.

My first exhibit is the program for the economics work at the Institute which I prepared in the spring of 1936, during the first year of my residence here in Princeton. (Exhibit A). It is in the form of a memorandum to Dr. Flexner entitled, "Shall the Institute concentrate its work in economics in the field of finance?" It recommends (a) that the Institute for Advanced Study concentrate its work in economics in the general field of finance, and (b) that it undertake to organize a large scale program of research in finance. I would no longer recommend the organization of the research program at Princeton due to subsequent developments at the National Bureau of Economic Research. I still recommend unreservedly that the Institute concentrate its work in economics in finance for the same reasons set down at length in that memorandum. On the basis of subsequent experience in developing the Institute's activities in economics, I would now stress an aspect of advanced work in finance which is implied rather than explicit in the memorandum, namely international finance. WWS

My own activities since the above memorandum was written have been devoted almost wholly to carrying out the objectives there set forth. [My procedures, of course, have been flexible and adapted to what was feasible.] In the spring of 1936 Dr. Flexner did not feel that the Institute was in a position to proceed immediately, either with the additional appointments in economics recommended in my memorandum of March 13, or with the program of financial research on the scale envisioned therein. Instead he sent me abroad to improve my contacts with foreign economists and to gain first hand experience with certain aspects of international financial problems. On the day of my return, however, there came an opportunity to further the research program I had in mind in the form of a telegram from Joseph Willats. In that telegram he asked me to attend a conference of leading bankers and economists to explore the possibility of inaugurating a more comprehensive attack on financial problems through a program of research. As a result of the conference I undertook to act as chairman of a committee of the National Bureau of Economic Research to draw up such a program, a work which eventuated in a two volume report. Volume One (Exhibit B) for which I was largely responsible, recommended a plan for a comprehensive program of financial research under the aegis of the National Bureau of Economic Research. It was essentially a development and adaptation of the research organization outlined in my memorandum of March 13 for adoption by the Institute. Volume One also recommended a comprehensive program of specific major inquiries in finance. Volume Two (Exhibit C) prepared by Professor Ralph Young of the University of Pennsylvania, who acted as Secretary to the Committee, presents an exhaustive inventory of all projects in financial research going forward at that time, in universities, research institutions, public agencies and private business and financial institutions.

Under the leadership of Joseph Willits, the program recommended by the committee was adopted by the National Bureau of Economic Research and large grants of funds have been made for its support from private banking institutions and public agencies as well as the Rockefeller Foundation. I have personally participated intimately in the scientific aspects of the program from the beginning in a number of capacities, (a) as a Director of the National Bureau of Economic Research, (b) as Chairman of the National Bureau Committee on Research in Finance (the scientific committee directly in charge of the program), (c) as Chairman of the National Bureau Committee on the Corporate Bond Study (the operating committee directly in charge of one of the three major research inquiries now under way). The present status of the program is outlined in the attached document prepared by the National Bureau of Economic Research entitled, "The Financial Research Program of the National Bureau of Economic Research." (Exhibit D)

My participation in this program takes various forms such as (a) suggestions of areas of inquiry, (b) formulation of specific problems and procedures for research, (c) continuous contact with research in progress through the medium of conferences with the personnel engaged and criticisms of work memoranda and manuscripts. This development has brought to fruition a great part of the specific research inquiries, contacts and influencing of younger personnel contemplated in my memorandum of March 13, 1936. Consequently I would not now personally recommend that the Institute for Advanced Study inaugurate a duplicate program in this field, but rather that professors and members of the Institute in Economics maintain their research contacts in finance by similar active participation in this and comparable work now going forward. Professor Warren, for example, is also a member of the Committee on Research in Finance of the National Bureau as well as of its Fiscal Policy Committee.

The memorandum of March 13, 1936 did not contemplate that the economic work of the Institute be confined to active participation in financial research. It planned that its faculty work at an advanced level throughout the range of financial problems, that Princeton be a place where specialists in finance would come from abroad as well as here and that the faculty be of a quality that would be called upon for advice, from abroad as well as from here. My experience to date has indicated more scope for this type of activity than could safely be assumed at that time. For example, during the winter of 1936-37, Mr. Humphrey Mynors, economist (now secretary) of the Bank of England, spent three months in residence at the Institute at Princeton. During the winter of 1938-39 Mr. Henry Clay, Economic Advisor to the Bank of England, likewise came to the Institute for a period of five weeks. In the autumn of 1936 I became intimately associated with the financial and economic activities of the League of Nations, sitting with the Finance Committee, the sub-committee on Financial Statistics of the Statistics Committee, and the Delegation on Business Depressions. This work, which necessitated two trips to Geneva in 1937, two in 1938 and one just before the outbreak of war, brought me into intimate contact on a working basis with economists and financial specialists abroad. In addition, from June 1937 to March 1938, I was invited to act as Special Consultant to the Stabilization Fund at the Treasury in Washington. Since the outbreak of the war, together with Professor Stewart and Professor Viner, I have again been invited to act as Special Adviser to the Secretary of the Treasury. In these days of crisis and official secrecy these contacts have been invaluable. They constitute almost the only means by which the economist seeking to work at an advanced level in international finance can obtain relevant material, become familiar with relevant problems and make an effective contribution. Up to last year, the scope of work of this type was limited by

the fact that I was the only appointment in this field at the Institute. There was no group at Princeton for outside specialists to visit. It consisted, therefore, too largely of my having to move out to get into effective contact with problems. With the advent of Professors Stewart and Warren this deficiency will be remedied, should they concur in the general program I have endeavored to work out. Our people will still be called away from Princeton from time to time - that is inevitable for a program in international finance, but there will always be others here to maintain a going concern at Princeton where outsiders may come for contact and training.

This outline indicates the general program which I have had in mind, together with the adaptations that have been forced by time and circumstances. Despite these adaptations, it represents, I believe, a consistent development toward objectives stated at the beginning in a fairly precise form. Up until very recently it has been worked out on my sole responsibility. Now that Walter Stewart and Robert Warren have joined us, the situation is different. They are ^{not} committed to this program, of course, but are as free as I have been to project their work in the direction they deem most effective. Nevertheless, they are both of the type envisioned in this program, i.e., they are economists highly specialized in finance, national and international, and their interests cover very much the same range of interests as were outlined in my original memorandum of 1936. While I cannot speak for them, I would consider their activities covered also. For example, the outline of activities suggested by Professor Warren in his letter of December 8th to Joseph Willits (Exhibit E) indicates types of activities falling within the general pattern.

Sup 3
Ov 4/6
11/14/45
Willits

Very truly yours,

Winfield W. Riefler

President Frank Aydelotte
Institute for Advanced Study
Princeton, N.J.

Warren

December 18, 1939

MEMORANDUM

To: Professor Riefler

From: Professor Warren

I concur in both theses of your letter to President Aydelotte -- from my training, I cannot help but emphasize the financial side of economics, since it is the only phase with which I am familiar, and my inclination, habits, and previous life all lead me to a proclivity toward its international aspects -- so strongly indeed, that at times I find myself unable to draw a clear demarcation between international and national finance. Unfortunately, my sense of nationalism is weak at best.

I also approve the decision not to undertake a specific research program at the Institute. Attractive as was the project presented in your memorandum of March 1936, I believe that events have demonstrated that the Economics group of the Institute works effectively (I should say most effectively) through the medium of outside organizations. For one thing, this frees the Institute from a measure of routine administrative work; and as your own record with the Bureau has shown, you have been able to multiply yourself as you could not have done had the same program been based on Princeton. On a far smaller and more prosaic pattern, the undertaking of Don Woodward and myself with the Federal Reserve Board in the current autumn, allowed me to participate in shaping a program which utilized the staff of the Board. Similarly, if my McGill Project materializes, I shall be able to influence certain programs of study in the Dominion through the formation of the proposed Canadian Bureau of Economic Research.

Nevertheless, it is my personal intent to devote my major interest to certain fields of individual rather than group effort. Four of these I outlined in my letter as personal undertakings -- the so-called Chronicle is an adventure of my own, and I estimate it will take about five years to bring it to a form where it can be more advantageously turned over to an organization of some sort. The work in collaboration with Miss Tschebotareff is also quite personalized for the present. The other two must wait for time and circumstance. In addition, from time to time, I encounter individuals who are pursuing alone studies initiated by their own curiosity. It is my hope to discover more of these and to afford them some sort of effective assistance. Indeed, I think I can do this sort of thing better than the formal group research; and I feel this so strongly that I may withdraw entirely from participation in organized or group projects.

12/8/39
to W. H. O. S.

Finally, quite apart from such undertakings, it is my intent to take the name of the Institute seriously. I intend to pursue my own studies; for I find that within even the bracketed area of financial economics, topics are continually appearing to which I feel I ought to devote study and reflection.

Before coming to the Institute, I had a number of discussions with Dr. Flexner on the manner in which the Institute would "precipitate" or actually function. It gave me great concern; and I was disturbed by the absence of concern expressed by Dr. Flexner. When I asked him to say how the Institute would "precipitate," his invariable reply was: "I don't know. But it will." After a year here, I appreciate the profundity of his faith. I have not the slightest doubt that when we have a mousetrap to give the world, or as we have

mousetraps to give the world, the world will come to get them. Indeed, so far as I am concerned, my output of mousetraps is small, and they are suitable only for small mice; and I am really apprehensive that strangers should get the vague impression that I had an assortment of bear-traps and elephant traps.

Your letter made little reference to "members" or students in residence. For myself, I do not want any for the present. The lack of a library really makes that sort of thing impossible; and the occasional applications suggest that people are laboring under a delusion as to what we have to offer. Yet if we had a library, I am inclined to think that I should welcome such people in small numbers. I believe it would help my own studies if I were in contact with a number of persons considerably younger than myself. Perhaps it is because I feel the need of a library so strongly that I am tempted to look for reasons to supplement my own wishes.

In this here now Institute (as Marcus used to say) I think it most important to recall Hegel: "It is the function of the idea to create the institution; it is the function of the institution to destroy the idea." Dr. Flexner's idea has created an institution; but I cannot tell you how concerned I am over the responsibility he has given us -- to defend his idea against the institution it created, and so prove Hegel wrong.

1936
1940

Vertical File

3/13

SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

RIEFLER, WINFIELD W.

Biographical

Economics Program.

Filed in Vertical File under S for School of Economics and Politics.

This is a sound program for SAS - needed by country
 + a truly academic one. NWS not enthusiastic
 of 1931 - to learn its cause + ^{study} preventive measures
 vi depression x Presents a program of personal +
 AF aid which probably ^{Home} Day was likely to aid -

From Riefler's Files - See his letter 1/22/56 filed correspondence

NWS must have
 liked it, but AF
 then was trying to help
 a tragedy -

It doesn't take a detective to know
that this was typed by an amateur on
a portable 20 years old but anyway
it is a more or less "faithful copy".

DZ

COPY

March 13, 1936

MEMORANDUM

To: Dr. Flexner

From: Mr. Riefler

Subject: Shall the Institute concentrate its work in economics in the field of Finance?

There is an opportunity for the Institute for Advanced Study to carve out for itself a much more unique position in economics than seemed possible as recently as last autumn. To embrace the opportunity, however, requires a fairly definite commitment to cultivate systematically the field of finance and to make additional appointments and to create additional facilities to that end. These commitments may be and probably are more definite than the Institute desires to undertake at present. The situation is such, however, that the whole subject deserves the deepest consideration.

Reasons for Concentration

The advantages of concentrated development of a particular phase of economics, as contrasted with an attempt to cover the whole field, require little comment for an institution dedicated to scholarship on an advanced plane, provided only that the field chosen for concentration be sufficiently important to merit consistent and systematic development. I think you are responsible for the observation that it is only at the undergraduate level that educational institutions should seek to meet a ^{primary} responsibility for broad and competent training in all fields of scholarship. In graduate schools, and especially in an institution at the post doctoral level, the main emphasis instead should be placed upon achieving distinction in

a limited number of carefully selected focal points rather than upon broad coverage. Should such a policy be adopted generally in economics in the graduate schools of this country, the caliber of advanced work would be enormously forwarded. Instead of diffusing their energies trying to cover the universe, each leading university would concentrate upon quality in some one field with the result, say, that advanced students would train as a matter of course at Harvard if they were interested in general economic theory, at Minneapolis or Stanford if they were interested in agricultural economics and at Princeton if they decided to specialize in finance. I have consulted President Dodds informally upon this aspect of the subject and have found him not only sympathetic but anxious to cooperate by building up the Princeton graduate faculty in the same direction. The proposal then is to endeavor to make Princeton as a locality, including both the Graduate School of the University and the work in economics at the Institute for Advanced Study, outstanding in the field of finance.

Choice of finance as the field for concentration.

The most important decision from the point of view of the Institute does not revolve around the relative advantages and disadvantages of concentration, but rather around the choice of finance as a specific field for concentration rather ^{than}, say, economic theory. Here, certain minor advantages accrue from the fact that the Princeton Graduate School has already achieved eminence in that field and that the greater part of my own experience has been gained in dealing with financial problems. In a much more basic sense, however, even without taking into account the specific opportunity outlined below, the field of finance has great merit from the point of view of the Institute.

1. It is of primary social and economic importance. Problems of finance,

especially monetary policy, stand at the very center of the public problems with which the world is wrestling and will in all probability continue to wrestle during the next generation at the least. They are problems, furthermore, that call as a matter of course for insight and guidance from the economist.

2. There is no outstanding educational institution in the world which has concentrated heavily in this field. The scholars of outstanding reputation can almost be counted on the fingers of two hands. Most of them work in relative isolation and many of them such as Walter Stewart, Henry Clay, Benjamin Anderson, R.G. Hawtry and Alexander Goldenweiser have no academic connections. Fairly well defined groups of younger men have grown up around J.M. Keynes and H. Parker Willis, but in neither case are the facilities available so comprehensive or balanced as to constitute an authoritative center of training such as is envisioned in this program.
3. In finance the scholar must of necessity subject the results of his thinking to the facts of real life. If he is to be effective he must combine, furthermore, a broad theoretical background with a high degree of sheer technical proficiency. It is largely for this reason that so large a proportion of the outstanding reputations are found outside the universities and so few of the universities have been able to give their most promising professors sufficient freedom to acquire the technical proficiency required.
4. An extraordinarily broad range of economic problems focus under the general heading of finance. It reaches so far, in fact, that the Institute would be in some danger of having selected too broad a field for intensive development rather than of having committed itself to activity that might prove too limited in scope. To mention only a few of these ramifications, the proper evaluation of financial and monetary problems requires proficiency not only in problems of central banking, monetary standards of value and the foreign exchanges. In addition, the student must be expert in financial organization, in the monetary phases of economic theory, in questions of public finance and taxation, in the theory and phenomena of price movements and in economic fluctuations and the theory of the so-called business cycle.

Cooperation with Government and Foundations.

In addition to these general considerations which would in any case mark the field of finance as one which the Institute should canvass most carefully before deciding upon the direction of its emphasis in economics. I feel I have located a very rich and in many senses unique opportunity which the Institute might grasp, if it is in a position to make a decision now. As this opportunity is still in the realm of an idea with no commitments made on any side, I can best describe it by relating

personal experiences in recent weeks.

In accordance with the specific projects outlined in my memorandum of last autumn, all of which incidentally fell in the field of finance, I have been endeavoring to see whether it was possible (1) to agree on the individual scholar best qualified to work on each of these problems, (2) to make arrangements giving him access to needed materials and facilities, and (3) to detach him long enough from his current responsibilities to permit the execution of the project. To date, the difficulties have revolved largely around the last point. I have found ^{the} experts whom I had in mind not only willing but anxious to work on these problems and the institutions affected ready to give ample access to facilities. The granting of a more or less indefinite leave of absence to a key individual in a functioning organization, on the other hand has presented a stumbling block. With the best cooperation in the world, the fact remains that experts of the type I have in mind cannot leave their organizations for six months, a year or two years, without placing their positions in real jeopardy. I have not, therefore, felt justified in pushing the projects until this major difficulty could be removed.

This contact work, on the other hand, has suggested the opportunity which forms the occasion for this memorandum. In conferences at the Social Science Research Council, at the Federal Reserve Bank of New York, at the Federal Reserve Board in Washington and also in discussions with a considerable number of individuals who are intimately concerned with the current confusion and conflicts in monetary and financial theory, it has been urged that the Institute should undertake to provide leadership in organizing a comprehensive attack on the theoretical and factual problems involved. While the various concepts as to what might be gained from such leadership are not

at all thought through as yet, and could not be until the project was well under way, I think I can best summarize the common attitude which I have found by drawing an analogy showing the contrast between the state of informed thinking on financial and monetary matters today and that which followed the crisis of 1907.

After 1907, Congress appointed the National Monetary Commission to make an exhaustive investigation of the reasons for the crisis and the weaknesses in our financial structure which it had exposed. This undertaking resulted eventually in a huge series of publications, many of which to be sure made relatively little contribution to our thinking on the problem. At the same time a fairly general agreement was reached as to the causes of the crisis and as to the main elements of reform in our financial structure that were indicated. This diagnosis, which allayed the silver controversy of 1896 and which resulted eventually in the creation of the Federal Reserve System, was not confined to economists; it embraced legislators, financial leaders and statesmen as well. Without questioning too deeply the correctness or depth of the diagnosis reached, the fact remains that the effort, taken as a whole, constituted a major contribution to the ever recurrent problem of bringing the scholar in the social sciences into effective contact with the real problems of modern social organization.

As compared with the recent world wide crisis, that of 1907 appears unimportant from almost any point of view, yet no comprehensive attempt has yet been launched to evaluate it on anything like the authoritative scale that was then undertaken by the National Monetary Commission. It is this leadership which the Institute is being urged to undertake.

I have talked this proposal over with numerous key individuals who would be involved and so far have found them unanimously enthusiastic and urgent that we proceed immediately, with the single exception of Walter Stewart who was friendly but did not seem to be enthusiastic. At the

This was
Fleming's
1931 purpose

WWS
purpose

Social Science Research Council, for example, I was requested to frame up a specific proposal immediately so that they could sound out the possibilities of financing the project. At the Federal Reserve Bank of New York, I was urged to go ahead and promised hearty cooperation in making contacts and obtaining material. At the Federal Reserve Board in Washington, Dr. Goldenweiser was equally enthusiastic and thought that the Board might welcome the opportunity to cooperate formally in a joint, far reaching investigation of the financial crisis, detailing its own experts to participate and shouldering the heavy expense that might ensue in the detailed examination of its own records. I have also gone over the general scope of the proposal with Stacy May who has made valuable suggestions as to the best form in which an inquiry of this kind should be set up. To summarize these remarks so far: (1) the need for a comprehensive inquiry of the type contemplated is, I think, almost unquestioned; (2) I have found not only enthusiasm for the inquiry, but also an extraordinary desire to cooperate on the part of those whose cooperation would be almost essential, so far as I have been able to sound them out; and (3) I have been urged from many sides to try to persuade the Institute to take the leadership in the undertaking.

This raises, I think, two questions which should be decided before the specific implications of the proposal are examined. (1) Is the Institute the best organization to undertake leadership in this undertaking, or should leadership be stimulated somewhere else? In the latter case, I assume, the Institute would still desire to cooperate and participate on a project as close to its interests and ideals as this. The considerations involved in answering these questions can best be formulated by canvassing alternatives.

A project of this kind must be authoritative, disinterested, completely free from suspicion of bias and must command the respect of the community. It requires the complete cooperation of the parties at interest, but should not preferably be directed or controlled by them. This rules out automatically

Summary
Support:
July 1945
C. H. K.

the use of the aegis of such organizations as the Chamber of Commerce, the American Bankers' Association and the Stock Exchange. It also militates somewhat against the use of a device such as a Congressional Committee of Inquiry or an inquiry inaugurated wholly and completely by the Federal Reserve System. With these sponsors eliminated there remain, (a) the universities, none of which is any better equipped than the Institute and all of which are more committed to other activities, (b) special research foundations such as the Brookings Institution and the National Bureau of Economic Research and (c) the possibility of organizing a special Institute for the purpose in hand, with special Foundation support. On balance, therefore, it would seem that the Institute for Advanced Study is as well equipped as any other organization to assume leadership for the undertaking.

The second question goes to the heart of our problems here, namely: from the point of view of the Institute for Advanced Study, how does such an undertaking fit? Does it represent a unique opportunity to be grasped, or would it divert the Institute from its true purposes? The answers here, I feel, hinge mainly around the question of whether the Institute (1) desires to build up its work in economics and (2) if so, does it desire to concentrate in finance. If it is in a position to answer these two questions in the affirmative, it has an opportunity to achieve distinction quickly in its chosen field that is unparalleled.

Method of Procedure

Should the Institute choose to cultivate finance and undertake leadership in this undertaking, it would need to proceed something as follows:

1. It would need to make provision for -

- a. The appointment in the near future of at least two additional professors of outstanding reputation in the field of finance.
- b. The appointment later of two or three additional professors and also of assistants as need for a more rounded faculty in finance developed.
- c. The creation of additional clerical facilities.

*Direct appeal
to Finance*

*This is WWR
offering leadership*

- d. The availability of offices and a certain amount of facilities not only for the resident faculty, but also for workers, visiting professors, technical experts etc.
- e. The availability of modest travel and entertainment funds for conferences.

2. With these provisions, which would require a total budget possibly as great as \$50,000 next year and \$100,000 annually thereafter, the Institute would be in a position to create a distinctive school of finance. This school would then assume leadership in formulating a broad inquiry into the causes and phenomena of the financial crisis as indicated above. The inquiry would be set up as a project sponsored by the Institute for Advanced Study, to be carried out disinterestedly in cooperation with all of the agencies and interests affected, and to be financed in part by the Rockefeller Foundation and in part by the official agencies involved. While the Institute would be sponsor and assume leadership, little of the actual investigation would be carried on here. The Institute would represent rather a center of intellectual stimulus. Specific problems to be investigated would be proposed here, their exact formulation agreed upon here after full consultation with scholars and experts from outside, and the results of the investigations as they were carried on would be subjected to constant evaluation and advice from the Institute which would act as the rallying point for disinterested and competent scientific opinion.

WWR had his own route to RFEA! not W.S. for writing?

To make this suggested procedure effective would require a formal request for the cooperation of the official agencies involved, and a formal request to the Rockefeller Foundation for supplementary financing to enable us to bring into the project experts and interested parties from outside the official agencies and the staff of the Institute. The project, I think, should have a general committee on which experts in the official agencies, the Social Service Research Council, outstanding scholars from other universities and other parties of interest were represented.

Further specific steps in procedure cannot, of course, be formulated at the present time. As I see it, the project should not be conceived as a specific inquiry to be published some time later in the form of a shelf of volumes. Publication of scientific results obtained will, of course, be required, but the method followed should be that of continuous and searching inquiry. At all steps in the process every effort should be made to engage the interest and obtain the critical help and advice of scholars throughout the field so that the inquiry itself would constitute an educational process in advanced scholarship and the results would represent a real focus of competent and informed opinion.

In driving toward this goal the Institute would, I believe, become the

natural center for advanced work in finance throughout the country. In the process of carrying out the inquiry, which would take at least five years, all of the leading scholars in finance, both here and abroad, would have been in contact with the Institute, most of them would have taken extended part in the formulation of problems here and the evaluation of results, and many would have been engaged in working on specific phases of specific investigations. In addition, younger men at the post doctoral level who would be used as assistants throughout, would be afforded an unrivalled opportunity for advanced training in finance.

1936

vert file "E"

9/24

SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

RIEFLER, W. W.

Biographical

Progress Report.

Filed in Vertical File under "E" for School of Economics
and Politics.

s-8

September 24, 1936

MEMORANDUM

To: Dr. Flexner

From: Mr. Riefler

Progress Report

In my memorandum of March 13, 1936 I suggested the advantages which might accrue to the work in economics of the Institute, if it concentrated its efforts for the present on the cultivation of analysis in the general field of financial problems. Of the various considerations which led me to the advancement of this suggestion, I feel that the following three are by far the most important:-

1. In developing a general field of scholarship as wide as that included under the term economics, it is desirable to avoid dispersion of our work, especially at the beginning. This may be done by selecting some one point of attack, such as the financial aspects of economic problems, as a point of departure around which we focus our activities.
2. The field of finance is especially suited for work of an advanced level, not only because of our contacts and location in Princeton, but also because of its primary social and economic importance, and its heavy reliance upon specialization of a character which most universities and graduate schools are not in a position to support.
3. The recent financial collapse and the current confusion of thinking with regard to its causes and consequences affords an immediate opportunity for development of productive work around which we may organize quickly.

Since submitting this memorandum, two further events have occurred which afford an opportunity to cultivate our work in the direction outlined. First, in visiting England this summer, I urged on Professor Henry Clay of the Bank of England the desirability of making an extended study of recent developments in financial research in this country, particularly research into problems of con-

sumer financing and real estate credit. The Institute has since invited Professor Clay to make Princeton his headquarters, if he adopts this suggestion. This type of arrangement for visiting scholars exemplifies the role which the Institute might play, if its work in finance develops successfully.

Secondly, I have recently agreed to act as Chairman of the Exploratory Committee on Financial Research of the National Bureau of Economic Research. It is the function of this Committee to prepare an inventory of all research work into financial problems now going forward in this country including work within financial institutions and within public research agencies, as well as work going forward at the various universities. This inventory is now being prepared under my general direction by Professor Ralph Young of the University of Pennsylvania. In addition, it is the duty of the committee to prepare a report containing recommendations for the further development and coordination of financial research throughout the country. This move of the National Bureau was undertaken under the instigation of the Reserve City Bankers Association which made available to the Bureau a small sum for the purpose of facilitating an exploratory survey. It is expected that the report will outline a broad program of research and analysis calling for the support of all agencies now engaged in financial research both public and private, including the foundations and the universities.

1936

vert. file

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November ~~9~~

SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

RIEFLER, W.

Biographical

Reports, School of Economics and Politics.

Filed in Vertical File under **S**, School of Economics and Politics.

See also...

S IAS Sch. of Econ. & Pol. 1934-9

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1931-27

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*My notes
come*
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March 13, 1936

MEMORANDUM

To: Dr. Flexner

From: Mr. Riefler

Subject: Shall the Institute concentrate its work in economics in the field of Finance?

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Reasons for Concentration

The advantages of concentrated development of a particular phase of economics, as contrasted with an attempt to cover the whole field, require little comment for an institution dedicated to scholarship on an advanced plane, provided only that the field chosen for concentration be sufficiently important to merit consistent and systematic development. I think you are responsible for the observation that it is only at the undergraduate level that educational institutions should seek to meet a primary responsibility for broad and competent training in all fields of scholarship. In graduate schools and especially in an institution at the post doctoral level, the main emphasis instead should be placed upon achieving distinction in a limited number of carefully selected focal points rather than upon broad coverage. Should such a policy be adopted generally in economics in the graduate schools of this country, the caliber of advanced work would be enormously forwarded. Instead

diffusing their energies trying to cover the universe, each leading university would concentrate upon quality in some one field with the result, say, that advanced students would train as a matter of course at Harvard if they were interested in general economic theory, at Minneapolis or Stanford if they were interested in agricultural economics, and at Princeton if they decided to specialize in finance. I have consulted President Dodds informally upon this aspect of the subject and have found him not only sympathetic, but anxious to cooperate by building up the Princeton graduate faculty in the same direction. The proposal then is to endeavor to make Princeton as a locality, including both the Graduate School of the University and the work in economics at the Institute for Advanced Study, outstanding in the field of finance.

Choice of finance as the field for Concentration.

The most important decision from the point of view of the Institute does not revolve around the relative advantages and disadvantages of concentration, but rather around the choice of finance as a specific field for concentration rather than, say, economic theory. Here, certain minor advantages accrue from the fact that the Princeton Graduate School has already achieved eminence in that field and that the greater part of my own experience has been gained in dealing with financial problems. In a much more basic sense, however, even without taking into account the specific opportunity outlined below, the field of finance has great merit from the point of view of the Institute.

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2. There is no outstanding educational institution in the world which has concentrated heavily in this field. The scholars of outstanding reputation can almost be counted on the fingers of two hands. Most of them work in relative isolation and many of them such as Walter Stewart, Henry Clay, Benjamin Anderson, R. G. Hawtry and Alexander Goldenweiser have no academic connections. Fairly well-defined groups of younger men have grown up around J. M. Keynes and H. Parker Willis, but in neither case are the facilities available so comprehensive or balanced as to constitute an authoritative center of training such as is envisioned in this program.]
3. In finance the scholar must of necessity subject the results of his thinking to the facts of real life. If he is to be effective he must combine, furthermore, a broad theoretical background with a high degree of sheer technical proficiency. It is largely for this reason that so large a proportion of the outstanding reputations are found outside the universities and so few of the universities have been able to give their most promising professors sufficient freedom to acquire the technical proficiency required.
4. An extraordinarily broad range of economic problems focus under the general heading of finance. It reaches so far in fact that the Institute would be in some danger of having selected too broad a field for intensive development rather than of having committed itself to activity that might prove too limited in scope. To mention only a few of these ramifications, the proper evaluation of financial and monetary problems requires proficiency not only in problems of central banking, monetary standards of value, and the foreign exchanges. In addition, the student must be expert in financial organization, in the monetary phases of economic theory, in questions of public finance and taxation, in the theory and phenomena of price movements, and in economic fluctuations and the theory of movements of the so-called business cycle.

Cooperation with Government and Foundations

In addition to these general considerations which would in any case mark the field of finance as one which the Institute should canvass most carefully before deciding upon the direction of its emphasis in economics, I feel I have located a very rich and in many senses unique opportunity which the Institute might grasp, if it is in a position to make its decision now. As this opportunity is still in the realm of an idea with no commitments made on any side, I can best describe it by relating personal experiences in recent weeks..

In accordance with the specific projects outlined in my memorandum of last autumn, all of which incidentally fell in the field of finance, I have been endeavoring to see whether it was possible (1) to agree on the individual scholar best qualified to work on each of the problems, (2) to make arrangement

giving him access to needed materials and facilities, and (3) to detach him long enough from his current responsibilities to permit the execution of the project. To date, the difficulties have revolved largely around the last point. I have found the experts whom I had in mind not only willing but anxious to work on these problems and the institutions affected ready to give ample access to facilities. The granting of a more or less indefinite leave of absence to a key individual in a functioning organization, on the other hand, has presented a stumbling block. With the best cooperation in the world, the fact remains that experts of the type I have had in mind cannot leave their organizations for six months, a year, or two years without placing their positions in real jeopardy. I have not, therefore, felt justified in pushing the projects until this major difficulty could be removed.

This contact work, on the other hand, has suggested the opportunity which forms the occasion for this memorandum. In conferences at the Social Science Research Council, at the Federal Reserve Bank of New York, at the Federal Reserve Board in Washington, and also in discussions with a considerable number of individuals who are intimately concerned with the current confusion and conflicts in monetary and financial theory, it has been urged that the Institute should undertake to provide leadership in organizing a comprehensive attack on the theoretical and factual problems involved. While the various concepts as to what might be gained from such leadership are not at all thought through as yet, and could not be until the project was well under way, I think I can best summarize the common attitude which I have found by drawing an analogy showing the contrast between the state of informed thinking on financial and monetary matters today and that which followed the crisis of 1907.

After 1907, Congress appointed the National Monetary Commission to make an exhaustive investigation of the reasons for the crisis and the weaknesses in our financial structure which it had exposed. This undertaking resulted eventually in a huge series of publications, many of which to be sure made relatively little contribution to our thinking on the problem. At the same time a fairly general agreement was reached as to the causes of the crisis, and as to the main elements of reform in our financial structure that were indicated. This diagnosis, which allayed the silver controversy of 1896 and which resulted eventually in the creation of the Federal reserve system, was not confined to economists; it embraced legislators, financial leaders, and statesmen as well. Without questioning too deeply the correctness or depth of the diagnosis reached, the fact remains that the effort, taken as a whole, constituted a major contribution to the ever recurrent problem of bringing the scholar in the social sciences into effective contact with the real problems of modern social organization.

As compared with the recent world wide crisis, that of 1907 appears unimportant from almost any point of view, yet no comprehensive attempt has yet been launched to evaluate it on anything like the authoritative scale that was then undertaken by the National Monetary Commission. It is this leadership which the Institute is being urged to undertake.

I have talked this proposal over with numerous key individuals who would be involved and so far have found them unanimously enthusiastic and urgent that we proceed immediately, with the single exception of Walter Stewart who was friendly, but did not seem to me to be enthusiastic. At the Social Science Research Council, for example, I was requested to frame up a specific proposal immediately so that they could sound out the possibilities of financing the project. At the Federal Reserve Bank of New York, I was urged to go ahead and promised hearty cooperation in making contacts and obtaining

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material. At the Federal Reserve Board in Washington, Dr. Goldenweiser was equally enthusiastic and thought that the Board might welcome the opportunity to cooperate formally in a joint, far-reaching investigation of the financial crisis, detailing its own experts to participate and shouldering the heavy expense that might ensue in the detailed examination of its own records. I have also gone over the general scope of the proposal with Stacy May who has made valuable suggestions as to the best form in which an inquiry of this kind should be set up. To summarize these remarks so far: (1) the need for a comprehensive inquiry of the type contemplated is, I think, almost unquestioned; (2) I have found not only enthusiasm for the inquiry, but also an extraordinary desire to cooperate on the part of those whose cooperation would be most essential, so far as I have been able to sound them out; and (3) I have been urged from many sides to try to persuade the Institute to take the leadership in the undertaking.

This raises, I think, two questions which should be decided before the specific implications of the proposal are examined. (1) Is the Institute the best organization to undertake leadership in this undertaking, or should leadership be stimulated somewhere else? In the latter case, I assume, the Institute would still desire to cooperate and participate on a project as close to its interests and ideals as this. The considerations involved in answering these questions can best be formulated by canvassing alternatives. A project of this kind must be authoritative, disinterested, completely free from suspicion of bias, and command the respect of the community. It requires the complete cooperation of the parties at interest, but should not preferably be directed or controlled by them. This rules out automatically the use of

the aegis of such organizations as the Chamber of Commerce, the American Bankers' Association, and the Stock Exchange. It also militates somewhat against the use of a device such as a Congressional Committee of Inquiry or an inquiry inaugurated wholly and completely by the Federal reserve system. With these sponsors eliminated there remain, (a) the universities, none of which is any better equipped than the Institute and all of which are more committed to other activities, (b) special research foundations such as the Brookings Institution and the National Bureau of Economic Research, and (c) the possibility of organizing a special Institute for the purpose in hand, with special Foundation support. On balance, therefore, it would seem that the Institute for Advanced Study is as well equipped as any other organization to assume leadership for the undertaking.

The second question goes to the heart of our problems here, namely; from the point of view of the Institute for Advanced Study, how does such an undertaking fit? Does it represent a unique opportunity to be grasped, or would it divert the Institute from its true purposes? The answers here, I feel hinge mainly around the question of whether the Institute (1) desires to build up its work in economics, and (2) if so, does it desire to concentrate in finance. If it is in a position to answer these two questions in the affirmative, it has here an opportunity to achieve distinction quickly in its chosen field that is unparalleled.

Method of Procedure

Should the Institute choose to cultivate finance and undertake leadership in this undertaking, it would need to proceed something as follows:-

1. It would need to make provision for-

- 2 Prof*
- a. The appointment in the near future of at least two additional professors of outstanding reputation in the field of finance.
 - b. The appointment later of two or three additional professors and also of assistants as need for a more rounded faculty in finance developed.
 - c. The creation of additional clerical facilities.
 - d. The availability of offices and a certain amount of facilities not only for the resident faculty, but also for workers, visiting professors, technical experts, etc.
 - e. The availability of modest travel and entertainment funds for conferences.

- outside from many
interests*
2. With these provisions, which would require a total budget possibly as great as \$50,000 next year and \$100,000 annually thereafter, the Institute would be in a position to create a distinctive school of finance. This school would then assume leadership in formulating a broad inquiry into the causes and phenomena of the financial crisis as indicated above. The inquiry would be set up as a project sponsored by the Institute for Advanced Study, to be carried out disinterestedly in co-operation with all of the agencies and interests affected, and to be financed in part by the Rockefeller Foundation and in part by the official agencies involved. While the Institute would be sponsor and assume leadership, little of the actual investigation would be carried on here. The Institute would represent rather a center of intellectual stimulus. Specific problems to be investigated would be proposed here, their exact formulation agreed upon here after full consultation with scholars and experts from outside, and the results of the investigations as they were carried on would be subjected to constant evaluation and advice from the Institute which would act as the rallying point for disinterested and competent scientific opinion.

To make this suggested procedure effective would require a formal request for the cooperation of the official agencies involved, and a formal request to the Rockefeller Foundation for supplementary financing to enable us to bring into the project experts and interested parties from outside the official agencies and the staff of the Institute. The project, I think, should have a general committee on which experts in the official agencies, the Social Science Research Council, outstanding scholars from other universities, and other parties of interest were represented.

Further specific steps in procedure cannot, of course, be formulated at the present time. As I see it, the project should not be conceived as a specific inquiry to be published some time later in the form of a shelf of volumes. Publication of scientific results obtained will, of course, be required, but the method followed should be that of continuous and searching inquiry. At all steps in the process every effort should be made to engage the interest and obtain the critical help and advice of scholars throughout the field so that the inquiry itself would constitute an educational process in advanced scholarship, and the results would represent a real focus of competent and informed opinion.

In driving toward this goal the Institute would, I believe, become the natural center for advanced work in finance throughout the country. In the process of carrying out the inquiry, which would take at the least five years, all of the leading scholars in finance, both here and abroad, would have been in contact with the Institute, most would have taken extended part in the formulation of problems here and the evaluation of results, and many would have been engaged in working on specific phases of specific investigations. In addition, younger men at the post doctoral level who would be used as assistants throughout, would be afforded an unrivalled opportunity for advanced training in finance.

Nov. 1935

dupl. etc.

To: Dr. Flexner

From: Mr. Riefler

Subject: Program of work in Economics for the School of Economics and Politics of the Institute for Advanced Study

I have outlined briefly below the type of work which I would like to inaugurate in the School of Economics and Politics, and the facilities which would be required for an approach to the problem from this point of attack. In framing the program, I have tried to take into account, as objectively and impersonally as possible, the four following points of reference.

1. The place of scholarship for which the Institute for Advanced Study seeks to conserve its resources

The Institute is not directly concerned with scholarship of the undergraduate or even the graduate level. As a minimum, it limits its work to the postdoctoral level, and within this broad field puts its emphasis on the encouragement of genuine productive scholarship at the frontiers of understanding.

2. The most promising fields for productive work in the Social Sciences

A factual approach to specific problems seems to me to offer the most advantageous opportunity for a genuine contribution by the Institute at the present stage in its development. In economics the traditional theoretical approach no longer commands the instinctive respect of important groups of scholars, despite the fact that it interprets phenomena in terms of a well-articulated and internally consistent body of doctrine. I feel that this has come about partly because events during the past two decades have given rise to sweeping changes in social and economic conditions on a larger and more devastating scale than our theoretical analysis was commonly understood to imply, and partly because a huge body of factual data has recently become available which constitutes a major challenge to the testing of our theoretical analysis. I would like, therefore, to concentrate for the present upon the explanation of some of these developments in terms of factual data now available.

3. The relevance of my own training and background to this work

My personal training is most highly specialized in the field of money and banking. From this central point of attack on economic and social problems I have acquired a considerable body of experience (a) in general financial problems, such as public finance and the scope and functioning of the securities markets and the mortgage market, (b) in data relating to economic fluctuations, such as changes in production, employment, trade, etc., and (c) in certain aspects of governmental problems relating mainly to the place of government in society. If my contribution is to be effective, the studies which I personally undertake or facilitate should not be scattered but should be concentrated for the most part in the fields where my experience is such that I can be reasonably satisfied that a creditable and useful piece of work will result.

4. The limitations of the resources which we can bring to bear

The resources of the Institute are ample for first class work provided we are modest in our approach. We will miss our opportunities if we undertake too ambitious a program. It is not our mandate to reform the world or rewrite the theoretical background of the social sciences as such. On a less grandiose plane we should not necessarily feel required to draw upon our resources to support all individual workers or specific projects which come to us, even though they fall within the limitations described above. The field to be covered is far too large for us to undertake a contract of this kind, either expressed or implied. To do so, in fact, would dissipate our resources, both intellectual and financial. Our primary concern must be, not only to undertake work on a high plane of scholarship, but also to limit ourselves within this area to efforts which are feasible, which promise a creditable outcome, and which fall within our range of competence.

Program

With these considerations in mind, I would like to concentrate my effort for the present upon the organization of factual data for the understanding of economic problems, selecting key situations for analysis, where, from my own experience, I know that the requisite data for the clarification of understanding are either already in existence or can readily be obtained. Both my own work and that of members who might be

attracted here to work with me would be governed by the requirements of this type of approach. The following jobs to be done will illustrate what I have in mind.

- A. The banking crisis of 1929-1933 was accompanied by many of the phenomena which characterized earlier crises, such as the panic of 1907, and was followed by many of the same effects. It differed from earlier crises, however, with respect to one key point, namely, the availability of rediscount facilities in terms of which earlier panics have to a considerable extent been explained. In trying to stem the course of the crisis, most of the emphasis in 1931 and 1932, both at Washington and New York, was placed on the elaboration of further rediscount facilities, such as earlier experience had indicated was necessary. Finally, in 1933, there was substituted for this treatment, a program of bank-capital rehabilitation, the major details of which are only now beginning to emerge in official publications. In some respects, this experience was paralleled in the German credit collapse of 1931, where the same general type of treatment was also applied. I believe that this situation contains the materials for a major contribution to economic understanding. Now that the crisis is over, the secrecy which was imposed on all participants who were intimately familiar with the situation can be dispensed with and its essential characteristics can be analyzed for the benefit of economists. I would not attempt at first to aim at anything so imposing as an authoritative treatment of the whole banking crisis - that problem will be occupying the attention of economists for years to come. I would concentrate rather on specific aspects of the situation where I am satisfied (1) that a contribution can be made because of a lack of understanding of the facts, and (2) that the facts exist or can readily be obtained to illuminate the problem. Given these conditions, I would try to locate one American expert, and if possible also a German expert, to deal with the problem simultaneously. I would select these experts on the basis of (a) familiarity of contact, (b) technical proficiency, and (c) economic understanding. By bringing men of this calibre to the Institute as members for six months, or longer if necessary, and by creating an atmosphere in which they can distil the understanding they have gained for the benefit of economists, we will be contributing to productive scholarship at the frontier of knowledge in this field.
- B. A second opportunity for making a specific contribution of this type exists in the field of corporate finance. During the 1920's conditions were favorable to the building up of corporate cash balances upon a scale unprecedented in history, and also, I am inclined to believe, to an extent that was not contemplated by economic theory. I would like to attract a first-class member or worker, fitted by ex-

perience to deal with the problem, to explore the origin, use and something of the consequences of these funds. We know that from 1927 to 1929 they appeared on a huge scale in the security markets in the form of "loans to brokers from non-banking lenders", and as such constituted an abnormal source of funds with which our credit machinery was not fitted by experience to deal. It is more difficult to trace the effect of these funds after 1929 when they were withdrawn from the brokers' loan market, but I suspect that they continued to play an important role in subsequent credit developments, especially during the crisis of 1931-1933, when large-scale movements of funds from bank to bank in search of safety aggravated the instability of the banking situation. Now that the whole period has receded into history, I think that we can, if we approach the problem properly, secure access to records which will make it possible to analyze this movement and bring its main implications into the thinking of economists.

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- C. The circumstances surrounding the departure of Great Britain from the gold standard in 1931 afford an opportunity for a somewhat different type of activity on the part of the Institute. In going over the literature covering this episode, I find a general assumption on the part of practically all economists that a serious over-valuation of the pound sterling in relation to other currencies constituted one of the basic causes of the crisis. Such data as is assembled to support this point, however, refers mainly to the pound in relation to continental currencies, and does not seem to me to be at all conclusive so far as dollar-sterling parities are concerned. A study to clear up a key point such as this would also fall within the type of work upon which I would like to see the Institute engaged. Price data is so difficult to manage objectively, however, that I am not sure such a study could be made. In cases such as this, consequently, I would like first to contact leading economists of different schools of thought, seeking their views on the problem and requesting their assistance in outlining the factual tests which they would consider valid. If it appeared, after such consultation, that such a study could be made, I would like to see the Institute in a position to participate in its execution.
- D. Finally, there are innumerable situations where economists are unaware of the significance to their thinking of data which is already available. The growth of factual data has been so rapid in recent years that all of us are guilty of resorting to inference and surmise where we might proceed in the light of knowledge. In going over economic literature, I find myself constantly wondering whether the author, when he made his analysis, was aware of certain data with which I happen personally to be familiar, or whether data subsequently developed would have changed his judgment. As a result, one cannot be sure of the extent to which apparently serious clashes of opinion among economists reflect genuine differences of point of view or merely deficiencies in their familiarity with relevant data. To

minimize this latter impediment to a more constructive common attack on our problem, I would like to undertake the establishment of a series of direct contacts with other economists by correspondence on a more elaborate scale than is commonly conducted. For example, when, in the case of a given writer, I find myself in doubt as to whether he was familiar with certain data with which I have been in touch, I would like to be in a position to organize the relevant material, but if it is undertaken objectively and continuously over a period of time as a major part of the Institute's activities, I believe it would repay itself many times over in gradually developing a more uniform approach to economic problems.

Comments

The foregoing examples are illustrations of the kind of approach which I would like to adopt. They would engage the activities of the Institute in economic problems at a level of genuine advanced study and would foster the development of intellectual contacts with productive scholars in this field throughout the world. The members brought to work at the Institute would be definitely above the average of the post-doctoral grade and on a par in many cases with the faculty. The scope of the program, furthermore, would at all times be within our control. We would be moving into situations where we could be reasonably confident of constructive results and would be in a position to expand or contract any given line of activity in accordance with its merits without regard to overly large prior commitments.

Cost of Program

The program can be inaugurated, I believe, without going beyond our resources. As it develops, however, it will be necessary for us to secure additional support from the Foundations. If we seek workers or members of the calibre indicated above, namely accredited specialists holding in

many cases key positions, we will have to maintain them at a rate of remuneration considerably higher than would be required for younger post-doctoral scholars. This cost, I would endeavor to cover by specific grants from the Foundations, which would, I believe, be anxious to support work of this promise. There is no provision, therefore, in the accompanying request for assistance to cover the cost of carrying these members. The Institute, on the other hand, must stand ready to supply the facilities for work of this calibre, not only in the form of adequate office space, equipment, and secretarial service, but also in the form of statistical facilities of a high order of competence. The accompanying memorandum outlines the cost of facilities of this order and would certainly be adequate for the remainder of the present academic year and the first part of the following year. Later, should the program develop as is hoped, additional office space would be required as well as a moderate further expansion of clerical and secretarial facilities.

Dissemination of Results

It is too early to hazard any definite plans for publication of the findings which will result from this program. We can, however, indicate the attitude from which we are approaching the problem. This attitude may best be expressed by stating that we do not look forward to an output of books as our chief means of disseminating our work. In general, we would not encourage the publication of studies until they had progressed to the point where the contents would constitute an authoritative contribution covering a major aspect of the field. We would seek to encourage, on the other hand, the immediate dissemination of the results of our work among all scholars to whom it would be profitable. This we would do through a heavy reliance on short memoranda covering very specific

points of analysis which we would endeavor to make available by direct contact or correspondence with economists elsewhere who are working on similar problems. If, by attacking our problems and disseminating our results in this way, we can help to develop a greater degree of common understanding and background among economists, we will have made an important collateral contribution to the effectiveness of the Social Sciences.

1934

very file

November 16

SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

RIEFLER, W. W.

Biographical

FLEXNER, A.

EARLE, E. M.

First memo from Riefler on I. A. S. economics program (potential) Flexner tells Earle that durable goods approach (approved by Stewart too) is in their minds not the whole but the most useful now. (Flexner to Earle, 12/3/34)

Memo is filed in the Vertical File under Economics and Politics, School of.

Earle's papers

THE INSTITUTE FOR ADVANCED STUDY
PRINCETON, NEW JERSEY

November 24, 1934

Dear Ed:

I am sending you herewith a memorandum prepared for me by a young economist with whom I have had a number of interviews in the last two years. It represents a very radical departure from academic economics. I wonder how it strikes you.

With all good wishes,

Sincerely yours,

A. F.

Professor Edward Mead Earle
2200 North Tejon Street
Colorado Springs, Colorado

AF/MCE

PROPOSED ECONOMIC UNIT
OF THE
INSTITUTE FOR ADVANCED STUDY

There can be little question of the urgent need for a more profound understanding of economic problems. The persistence of the present depression, its intensity, the extent of economic disequilibrium which it has revealed, its world-wide character, and the human suffering in the form of sustained unemployment by which it has been accompanied, all offer incontrovertible testimony on this point. In the field of economics, the problem is not whether there is ample scope for advanced study, but rather how such study can best be implemented, for the quality of the human need is such as to call for all of the intelligence which we can bring to its solution.

Role of the Institute for Advanced Study

The paramount problem of economics today is to reformulate its basic thinking to the point where it can offer an authoritative explanation of the present world-wide paralysis. As compared with this problem, the doctrinal disputes of predepression years fade into insignificance. No special school, no particular type of logical analysis, indicated the immanence of a breakdown such as this prior to 1929, nor has the course of events since that time especially justified the approach on which any one group was working.

We have, in fact, no central core of accepted verifiable generalizations in this field such as are found in the other major intellectual disciplines. There is no unity, therefore, in the various subdivisions of intensive specializations, nor is there a common body of logic to serve as intellectual tools in the development of new hypotheses on the frontiers of advanced study. As a result there is confusion in accredited professional economic judgment upon almost any major problem that is posed. This has been particularly emphasized during the past few years of divergent counsels when economists, as a group,

have almost universally failed to speak with an authoritative voice either in their analyses of the course of events or in their proposals for their amelioration or cure. Instead, when professional counsel was most urgently demanded, economists have been found widely divided even upon questions of basic import where professional competence could be presumed to be final.

One source of this confusion is found in the failure of current economics to take adequately into account the dominating characteristics of economic society in the twentieth century. That part of our present theory which is carefully worked out and logically articulated is based essentially on the economic processes and relationships which were prevalent in our society a century or more ago. Most of the resources of the community were then occupied with the production, distribution and consumption of perishable commodities, such as food and clothing, and the major attention of economists was directed toward an analysis of economic phenomena associated with the markets for such goods. During the years immediately preceding the depression, on the other hand, fully one-half of our production of commodities consisted of durable goods, the markets for which differ widely in their behavior from those markets upon which most economic analysis has been based. This change calls for a re-analysis of economic data, a new development of economic theory. Such an analysis will run to the heart of all of the phenomena associated with the current breakdown. It will require, however, the creation of new intellectual tools in addition to those with which economists are now working. By concentrating on this approach and by developing systematically all of the varied facets which it will uncover, the Institute can reasonably hope to make a major advance in economic theory during the next decade.

The logical tools, the generalizations, and the research methods with which advanced students in the field are now working, fall in general into

three broad categories:

- (1) Commodity or price system studies which conceive of our economic system as one regulated by the free interplay of costs and prices. To aid in the analysis of this interplay, there is available a highly refined body of logical generalizations with respect to markets for perishable commodities and to supply and demand relationships for these commodities, generalizations which were developed and emphasized during the so-called classical period of economic study;
- (2) Monetary studies, which, because modern economic society is organized along pecuniary lines in which financial phenomena are especially important, regard movements of money and credit as of paramount significance. Students working in this general field also have the aid of a highly articulated body of logical generalizations, but they are for the most part generalizations based upon analysis and observation of a world-wide money market for short-term credit instruments, unified by a gold standard, and regulated by central banks. They do not take adequately into account the influence of the capital markets.
- (3) Quantitative or statistical studies, which are still in the empirical stage, possessing as yet no body of logical generalizations and few explicit assumptions of an economic character. Economists in this field have uncovered the problem of economic fluctuations and have charted their movements. They have contributed little as yet, however, to an understanding of their causes, their prevention or their cure.

The Problem of Durable Goods

It is proposed, therefore, that the Institute for Advanced Study attack this problem by developing a sustained inquiry into that group of unsolved economic questions which are associated with the current stagnation in the durable goods industries and which are now loosely aggregated under the caption "The Problem of Durable Goods." Such an attack has the advantage that it is sufficiently limited to be specific at a time when a more general approach might be drowned in the prevailing confusion of thought, that it is sufficiently undeveloped to require exploration, and finally that it is sufficiently basic to afford hope that it will disclose the key which will lead to a reformulation and closer articulation of economic theory.

Its importance has become increasingly apparent to economists during the course of the present depression which has been particularly associated with markets for durable goods. On looking backward it now appears that these same phenomena were more generally characteristic of previous depressions than was formerly recognized. If one can look forward to an eventual resumption of the basic economic trends which have accompanied the rise of industrialism during the past century, it is a tenable assumption that future economic repercussions, arising out of stoppages in the flow of durable goods, will be even greater than at present, since the relative proportion of our total economic activity which is represented by the durable goods industries is bound to increase with rising industrial efficiency and the growth of productivity. In other words, a high standard of living implies a heavy concentration of economic resources in durable goods industries, and a rising standard of living of necessity increases the general havoc attending maladjustments in these industries.

It is safe to assume, therefore, that in selecting the problem of the economics of durable goods for solution, the Institute would be exploring not only a factor that is now recognized as of major importance in the present breakdown but in addition one which will probably become of increasing importance.

There are found in this problem numerous fields for highly intensive specialized research, for durable goods include not only capital goods, but also public works, replacement capital goods and consumers durable goods. Each of these categories now represents individually large elements of our economy, and together make up over one-half of the total. The factors, social and economic, which determine whether there is or is not a demand for goods of this character, go a long way also toward determining the extent of unemployment, and the rate of activity of our entire economic system. They have come to

occupy , therefore, a position at least equal in importance with factors common to markets for perishable commodities and deserve an equally thorough exploration at the hands of economists.

The logical factors which should govern the demand for capital goods, for example, can be analyzed, even though their application to specific situations is difficult since investment in such goods is necessarily based upon an imperfect capitalization of an estimated return in an unclear and unforeseeable future. In the case of consumers durable goods, on the other hand, such as houses, automobiles, etc., the existence of demand is partly social in character, a reflection of the standard of living and subject to changes in style. These widely differing markets, therefore, will require correspondingly different analysis.

An example of the type of theoretical problem posed by the development of a dominant industry devoted to consumers durable goods is offered by the recent experience of the motor industry, where in 1932 widespread unemployment and distress prevailed throughout all the industries that participate in the manufacture of automobiles. The stagnation in the market for new cars, however, did not imply that the American people, as a whole, were using less automotive transportation than in predepression years. The consumption of gasoline in 1932 in fact would seem to indicate relatively little decline in the actual use of automobiles in that year. Automobiles, however, were durable goods, and this single fact permitted the American people to continue to consume automobiles even though they were not currently producing them. In other words, the American economy had developed this important industry to the point where a sustained and effective demand for consumption was not of itself sufficient to call forth an equally effective and continuous demand for employment in the manufacture of the article consumed.

The preponderating importance of durable goods as such opens up for exploration a further equally important field in their relation to a credit economy, for durable goods by their nature represent large financial commitments and in most cases require almost of necessity the availability of a loan market. Any basic study of durable goods as such, therefore, leads directly and realistically into a study of savings and investment, of security and mortgage markets, of banks and finance companies, and, finally, of money markets, ~~of banks and finance companies, and, finally, of money markets,~~ foreign exchanges and currencies.

In theory, as we have inherited it, this aspect of monetary problems has received far too little attention. Our monetary theory today has not yet departed fundamentally in its thinking from a financial structure in which the preponderating elements consist of (1) a currency based on gold, (2) deposit-creating commercial banks dealing in self-liquidating commercial paper, (3) central banks regulating through a short-term rediscount rate the volume of deposits created by these banks, and (4) an international gold standard to govern the activities of central banks. In theory under this picture, the whole economic structure is maintained in equilibrium through movements of gold which, on the one hand, are governed by the response of foreign trade to relative commodity price levels, and, on the other hand, through their effects on central banks set in motion forces to maintain these price levels in equilibrium. Any realistic examination of this analysis in the light of today's conditions reveals its inadequacies and its relative neglect of the major institutions and forces that play on the financial markets. In point of fact, a realistic study of the balance of payments today reveals that the distribution of gold is infinitely more affected by large movements of capital items of a highly unstable character than by trade in commodities

of a type to be sensitive to small changes in relative price levels.

These examples are sufficient to illustrate the basic nature of an approach to our economic theory from the standpoint of durable goods. Our present theory is based essentially on an economic society in which durable goods activities play a minor role. In a society such as ours where they have achieved preponderance, a fresh approach is indicated with respect both to the commodity analysis, and also with respect to the "money surface of things," an approach which must take into account the essential importance of whole areas of the economic scene not yet sufficiently explored. An attack on the problem from this angle gives every promise of being more basic than the work now being done and also of serving to unify work of a partial nature in several major segments of the field.

Problems of Organization

The greatest flexibility in organization and detail will be necessary if a major approach along these lines is to have a reasonable chance of success. A group of economists of outstanding quality, capable of rethinking and reformulating economic theory is essential. It should be built up as occasion warrants on the basis of the quality of the individual concerned and the nature of the thinking which he can bring to the program. If a center of real thinking is established, there will be no difficulty in persuading such individuals to join in the quest, nor will there be any lack of close contact with the universities.

For this group to develop anything more solid than highly conjectural hypotheses, they must be granted special facilities. The project will require not only a careful formulation of specific problems to be tested but also an extensive reliance upon statistical data much of which is not now available. One of the tasks of the Economic Unit of the Institute will be the develop-

ment of statistics capable of aiding in the solution of its problems, statistics which must of necessity be produced in the main by large governmental statistical and research bureaus in this country and abroad. In this it will gain help from some of the endowed research institutions and the universities. To make this data available and usable in Princeton the Institute should contemplate from the beginning the establishment of a small statistical research and clerical staff. It should also contemplate that its faculty or group have sufficient freedom to keep in close personal contact with the statistical and research centers where the basic materials are being forged. This may require travel and at times possibly extended absences from Princeton. There will be little scope for formal classes, or for students as such, but ample opportunity for close contact between intellectual workers on a common group of projects of high promise. Part of this group will be brought to Princeton, part will be working in the universities, and an important part will be located at centers of specialized research. The Institute should not conceive of itself as a location but rather as a source of mental ferment embracing all of the advanced students in this field.

1934

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SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

RIEFLER, W.

Biographical

FLEXNER, A.

Reports, School of Economics and Politics.

Filed in Vertical File under School of Economics, and Politics, "S"

S IAS Economics & Politics, 1934-39

201
5-8

THE INSTITUTE FOR ADVANCED STUDY

(FOUNDED BY LOUIS BAMBERGER AND MRS. FELIX FULD, 1930)

OFFICE

20 NASSAU STREET

PRINCETON, NEW JERSEY

CABLE ADDRESS: VANSTITUTE PRINCETON NEW JERSEY

November 17, 1934

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Dear Dr. Riefler:

I have received and read your interesting memorandum of the 16th. It is a vigorous document and strikes me - an untrained person, to be sure - as in a high degree substantial and suggestive. I shall say nothing more about it until I have had a chance to see Mr. Stewart and learn his opinion.

I have been called out of town and shall be away from Princeton until Wednesday evening. I shall be here from Wednesday until Saturday evening, and then out of town from Sunday morning until Tuesday or Wednesday, about November 28th. After that I have no appointments except on December 6th, when I must be in New York. Thereafter I am free.

With many thanks for the trouble you have taken and are still taking, I am

Always sincerely,

Abraham Flexner

Dr. Winfield W. Riefler
Room 7219, Commerce Building
Washington, D. C.

AF/MCE

S 1AS Com. Pt. 1934-39

34 Malvern Avenue
Cherrydale, Virginia
November 16, 1934

Dear Mr. Stewart:

Enclosed is a copy of my memorandum for
Dr. Fleumer. I have not had much time to give
to it and feel that it is still needlessly wordy.
However, it will have to do. I would appreciate
your reaction.

Very truly yours,

(Riefen)

Mr. Walter W. Stewart
Case, Passmore & Company
120 Wall Street
New York City

S 1AS Leon-Pol. 1934-39

November 15, 1934

Dear Dr. Flexner:

I hope that the enclosed memorandum serves the purposes which we discussed at our meeting in New York. It summarizes my present thought on the best approach to the problem of organizing an economic division of the Institute of Advanced Study on lines comparable to those now developed in the field of mathematics. As you know, these suggestions are purely tentative since I have had little real time to give to the problem. I am sending a copy of the memorandum to Walter Stewart.

Thank you for the opportunity of going over the whole question with you. It has helped to clarify my own attitude immeasurably. I shall be glad to come to Princeton as soon as I can arrange to leave here. I cannot set a definite date at this time because the current week is more than crowded.

Very sincerely yours,

Dr. Abraham Flexner, Director
The Institute for Advanced Study
20 Nassau Street
Princeton, New Jersey

S IAS 8+P 1934-39

November 16, 1934

PROPOSED ECONOMIC UNIT
OF THE
INSTITUTE FOR ADVANCED STUDY

There can be little question of the urgent need for a more profound understanding of economic problems. The persistence of the present depression, its intensity, the extent of economic disequilibrium which it has revealed, its world-wide character, and the human suffering in the form of sustained unemployment by which it has been accompanied, all offer incontrovertible testimony on this point. In the field of economics, the problem is not whether there is ample scope for advanced study, but rather how such study can best be implemented, for the quality of the human need is such as to call for all of the intelligence which we can bring to its solution.

Role of the Institute for Advanced Study.

The paramount problem of economics today is to reformulate its basic thinking to the point where it can offer an authoritative explanation of the present world-wide paralysis. As compared with this problem, the doctrinal disputes of predepression years fade into insignificance. No special school, no particular type of logical analysis, indicated the imminence of a breakdown such as this prior to 1929, nor has the course of events since that time especially justified the approach on which any one group was working.

We have, in fact, no central core of accepted verifiable generalizations in this field such as are found in the other major intellectual disciplines. There is no unity, therefore, in the various subdivisions of intensive specializations, nor is there a common body of logic to serve as intellectual tools in the development of new hypotheses on the frontiers of advanced study. As a result there is confusion in accredited professional economic judgment upon almost any major problem that is posed. This has been particularly emphasized during the past few years of divergent counsels when economists, as a group, have almost universally failed to speak with an authoritative voice either in their analyses of the course of events or in their proposals for their amelioration or cure. Instead, when professional counsel was most urgently demanded, economists have been found widely divided even upon questions of basic import where professional competence could be presumed to be final.

~~The~~ ^{One} source of this confusion is found in the failure of current economics to take adequately into account the dominating characteristics of economic society in the twentieth century. That part of our present theory which is carefully worked out and logically articulated is based essentially on the economic processes and relationships which were prevalent in our society a century or more ago. Most of the resources of the community were then occupied with the production, distribution and consumption of perish-

able commodities, such as food and clothing, and the major attention of economists was directed toward an analysis of economic phenomena associated with the markets for such goods. During the years immediately preceding the depression, on the other hand, fully one-half of our production of commodities consisted of durable goods, the markets for which differ widely in their behavior from those markets upon which most economic analysis has been based. This change calls for a re-analysis of economic data, a new development of economic theory. Such an analysis will run to the heart of all of the phenomena associated with the current breakdown. It will require, however, the creation of new intellectual tools in addition to those with which economists are now working. By concentrating on this approach and by developing systematically all of the varied facets which it will uncover, the Institute can reasonably hope to make a major advance in economic theory during the next decade.

The logical tools, the generalizations, and the research methods with which advanced students in the field are now working, fall in general into three broad categories:

- (1) Commodity or price system studies which conceive of our economic system as one regulated by the free interplay of costs and prices. To aid in the analysis of this interplay, there is available a highly refined body of logical generalizations with respect to markets for perishable commodities and to supply and demand relationships for these commodities, generalizations which were developed and emphasized during the so-called classical period of economic study;
- (2) Monetary studies, which, because modern economic society is organized along pecuniary lines in which financial

phenomena are especially important, regard movements of money and credit as of paramount significance. Students working in this general field also have the aid of a highly articulated body of logical generalizations, but they are for the most part generalizations based upon analysis and observation of a world-wide money market for short-term credit instruments, unified by a gold standard, and regulated by central banks. They do not take adequately into account the influence of the capital markets.

- (3) Quantitative or statistical studies, which are still in the empirical stage, possessing as yet no body of logical generalizations and few explicit assumptions of an economic character. Economists in this field have uncovered the problem of economic fluctuations and have charted their movements. They have contributed little as yet, however, to an understanding of their causes, their prevention or their cure.

The Problem of Durable Goods.

It is proposed, therefore, that the Institute for Advanced Study attack this problem by developing a sustained inquiry into that group of unsolved economic questions which are associated with the current stagnation in the durable goods industries and which are now loosely aggregated under the caption "The Problem of Durable Goods." Such an attack has the advantage that it is sufficiently limited to be specific at a time when a more general approach might be drowned in the prevailing confusion of thought, that it is sufficiently undeveloped to require exploration, and finally that it is sufficiently basic to afford hope that it will disclose the key which will lead to a reformulation and closer articulation of economic theory.

Its importance has become increasingly apparent to economists during the course of the present depression which has been particularly associated with markets for durable goods. On looking backward it now appears that these same phenomena were more generally characteristic of previous depressions than was formerly recognized. If one can look forward to an eventual resumption of the basic economic trends which have accompanied the rise of industrialism during the past century, it is a tenable assumption that future economic repercussions, arising out of stoppages in the flow of durable goods, will be even greater than at present, since the relative proportion of our total economic activity which is represented by the durable goods industries is bound to increase with rising industrial efficiency and the growth of productivity. In other words, a high standard of living implies a heavy concentration of economic resources in durable goods industries, and a rising standard of living of necessity increases the general havoc attending maladjustments in these industries.

It is safe to assume, therefore, that in selecting the problem of the economics of durable goods for solution, the Institute would be exploring not only a factor that is now recognized as of major importance in the present breakdown but in addition one which will probably become of increasing importance.

There are found in this problem numerous fields for highly intensive specialized research, for durable goods include not only capital goods, but also public works, replacement capital goods and

consumers durable goods. Each of these categories now represents individually large elements of our economy, and together make up over one-half of the total. The factors, social and economic, which determine whether there is or is not a demand for goods of this character, go a long way also toward determining the extent of unemployment, and the rate of activity of our entire economic system. They have come to occupy, therefore, a position at least equal in importance with factors common to markets for perishable commodities and deserve an equally thorough exploration at the hands of economists.

The logical factors which should govern the demand for capital goods, for example, can be analyzed, even though their application to specific situations is difficult since investment in such goods is necessarily based upon an imperfect capitalization of an estimated return in an unclear and unforeseeable future. In the case of consumers durable goods, on the other hand, such as houses, automobiles, etc., the existence of demand is partly social in character, a reflection of the standard of living and subject to changes in style. These widely differing markets, therefore, will require correspondingly different analysis.

An example of the type of theoretical problem posed by the development of a dominant industry devoted to consumers durable goods is offered by the recent experience of the motor industry, where in 1932 widespread unemployment and distress prevailed throughout all the industries that participate in the manufacture

of automobiles. The stagnation in the market for new cars, however, did not imply that the American people, as a whole, were using less automotive transportation than in predepression years. The consumption of gasoline in 1932 in fact would seem to indicate relatively little decline in the actual use of automobiles in that year. Automobiles, however, were durable goods, and this single fact permitted the American people to continue to consume automobiles even though they were not currently producing them. In other words, the American economy had developed this important industry to the point where a sustained and effective demand for consumption was not of itself sufficient to call forth an equally effective and continuous demand for employment in the manufacture of the article consumed.

The preponderating importance of durable goods as such opens up for exploration a further equally important field in their relation to a credit economy, for durable goods by their nature represent large financial commitments and in most cases require almost of necessity the availability of a loan market. Any basic study of durable goods as such, therefore, leads directly and realistically into a study of savings and investment, of security and mortgage markets, of banks and finance companies, and, finally, of money markets, foreign exchanges and currencies.

In theory, as we have inherited it, this aspect of monetary problems has received far too little attention. Our monetary theory today has not yet departed fundamentally in its thinking from a

financial structure in which the preponderating elements consist of (1) a currency based on gold, (2) deposit-creating commercial banks dealing in self-liquidating commercial paper, (3) central banks regulating through a short-term rediscount rate the volume of deposits created by these banks, and (4) an international gold standard to govern the activities of central banks. In theory under this picture, the whole economic structure is maintained in equilibrium through movements of gold which, on the one hand, are governed by the response of foreign trade to relative commodity price levels, and, on the other hand, through their effects on central banks set in motion forces to maintain these price levels in equilibrium. Any realistic examination of this analysis in the light of today's conditions reveals its inadequacies and its relative neglect of the major institutions and forces that play on the financial markets. In point of fact, a realistic study of the balance of payments today reveals that the distribution of gold is infinitely more affected by large movements of capital items of a highly unstable character than by trade in commodities of a type to be sensitive to small changes in relative price levels.

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derance, a fresh approach is indicated with respect both to the commodity analysis, and also with respect to the "money surface of things," an approach which must take into account the essential importance of whole areas of the economic scene not yet sufficiently explored. An attack on the problem from this angle gives every promise of being more basic than the work now being done and also of serving to unify work of a partial nature in several major segments of the field.

Problems of Organization.

The greatest flexibility in organization and detail will be necessary if a major approach along these lines is to have a reasonable chance of success. A group of economists of outstanding quality, capable of rethinking and reformulating economic theory is essential. It should be built up as occasion warrants on the basis of the quality of the individual concerned and the nature of the thinking which he can bring to the program. If a center of real thinking is established, there will be no difficulty in persuading such individuals to join in the quest, nor will there be any lack of close contact with the universities.

For this group to develop anything more solid than highly conjectural hypotheses, they must be granted special facilities. The project will require not only a careful formulation of specific problems to be tested but also an extensive reliance upon statistical data much of which is not now available. One of the tasks

of the Economic Unit of the Institute will be the development of statistics capable of aiding in the solution of its problems, statistics which must of necessity be produced in the main by large governmental statistical and research bureaus in this country and abroad. In this it will gain help from some of the endowed research institutions and the universities. To make this data available and usable in Princeton the Institute should contemplate from the beginning the establishment of a small statistical research and clerical staff. It should also contemplate that its faculty or group have sufficient freedom to keep in close personal contact with the statistical and research centers where the basic materials are being forged. This may require travel and at times possibly extended absences from Princeton. There will be little scope for formal classes, or for students as such, but ample opportunity for close contact between intellectual workers on a common group of projects of high promise. Part of this group will be brought to Princeton, part will be working in the universities, and an important part will be located at centers of specialized research. The Institute should not conceive of itself as a location but rather as a source of mental ferment embracing all of the advanced students in this field.

THE ECONOMIC RESEARCH GROUP.

- Purpose 1. The Group was set up about a year ago on a wholly informal basis, to study the economic and social problems of the Danubian region. The countries usually covered by these studies are: Poland, Czechoslovakia, Austria, Hungary, Yugoslavia, Rumania, Bulgaria and Greece.
- Personnel 2. The personnel of the group is not fixed, but it has remained fairly constant. It includes experts from the several countries named above. Those representing Allied countries are almost all officials of their respective countries, but they take part in the work of the group in a purely private capacity, though with the knowledge of the governments concerned.
3. N. Montchiloff, the former Bulgarian Minister to London, and a former Governor of the National Bank of Bulgaria, acts as chairman; other members include Dr. Micanic, at present vice-Governor of the National Bank of Yugoslavia; N. Danielopol, formerly representative in England of the National Bank of Rumania, and Rumanian delegate to the International Wheat Conference in 1939; Dr. Postas, a former member of the Hungarian Statistical Office and now on the staff of the National Economic Institute etc. etc.; Dr. Cross, formerly in the banking business in Transylvania, is research secretary of the group.
4. In addition the group seeks advice from outside experts, whenever the subject under discussion makes this desirable. Mr. F.L. McDougall of Australia House; Professor A.G.B. Fisher; members of P.E.P., to mention only a few, have been generous in their help.
- Basis of work. 5. Only three general conditions were laid down as a basis for the work of the group:
- (i) The studies were to be concerned only with the economic and social problems of reconstruction. No political issues were to be discussed or considered.
 - (ii) All the questions were to be studied for the region as a whole, so as to see what the region could do for itself, with a view to raising the general social level of the peoples concerned.
 - (iii) All the studies were to be concrete and based on factual and statistical material; they were thus to provide the basis for a considered policy rather than to advocate any particular policy themselves.
6. The papers are prepared in draft on the basis of detailed studies, and discussed by the group as a whole before they are released.
7. The papers and other material are made available to any official body or private institution concerned with problems of post war reconstruction. There is nothing secret about the work of the group, but neither does the group seek publicity of its own. The Board of Trade, the U.S. Embassy and other departments have used the group's studies and have expressed their appreciation of them.

Scope of
the work.

8. Because the central purpose of these studies is to discover the most appropriate lines for improving the general conditions of the region, and because the region is predominantly agrarian, the group began with the problem of agriculture. Two papers have been issued so far:
 1. The Problem of Nutrition in the Danubian Region.
 2. The Reconstruction of Agriculture in the Danubian Region.

9. Work is fairly advanced on a number of papers which form the logical next stages in the inquiry:
 3. Industrialization
 4. Marketing
 5. Transport
 6. Capital and Credit
 7. Fiscal Policy
 8. Social Policy

The group hope to add papers on Labour, Education, etc. so as to present in due course a comprehensive picture of the post-war problems and possibilities of the Danubian Region.

10.3.43.

5-17-44

Memorandum

To: Mr. Aydelotte
From: W. W. Stewart
Subject: Membership in School of Economics
1944-45

Members

With stipend

Jonathan Mitchell
Friedrich Lutz
R.P. Blackman
Assistant *Baron*

Without stipend

Walter Schiffer
(Guggenheim)

Mrs. Bill (to Oct. 1st)

Prospective members
(Invitations outstanding)

C. W. Everett (Guggenheim)
~~D. H. Dickason (Knopf)~~
~~Hans Baron (Rockefeller)~~
Miss Koch (Guggenheim) - *coming*
Miss Thruop (Guggenheim)

Simon Kuznets (R.F.)

As of July 13, 1944

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Miss Kathleen Kehoe

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Miss Bernetta A. Miller (Director's Office), 349 Nassau Street - no telephone

Miss Ruth Cook

Mrs. Dorothy Dauncey (Telephone Operator), c/o Institute for Advanced Study

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Prof. Hermann Weyl (Librarian)

Mrs. Dorothy R. Persons (Assistant Librarian), 120 Prospect Ave. - tel. 1751-J

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Prof. David Mitrany (on leave of absence)

Prof. Winfield W. Riefler (M), Battle Road Circle - tel. 933 (on leave of absence)

Prof. Walter W. Stewart (M), Gladstone, New Jersey

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Prof. Benjamin D. Meritt (M), 99 Battle Road - telephone 1426

Prof. Erwin Panofsky (M), 97 Battle Road - telephone 1679 - Summer address: Kennebunkport, Maine

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Mrs. Dorothy Dauncey (Secretary) c/o Institute for Advanced Study

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Miss Adrienne Koch (1944-1945) *
Mr. Asher Brynes as guest, Hightstown, New Jersey

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Prof. Renssalaer Lee (M), 95 Battle Road - telephone 2401
Prof. Doro Levi (M*), 103 Moore Street - telephone 975-J
Dr. Paul Tedesco (In residence at Yale for present academic year)

Dr. Antony E. Roubitschek (M) 132 Alexander St. - No telephone
Prof. Jacob Hammer (M) Address now: 2757 Clafin Ave. Bronx, N.Y. 63, N.Y.
Mr. Eugene Vanderpool, Address now - 12 Aiken Ave. or c/o Institute for Advanced Study
John S. Craghan, S.J., Morris Hall, Lawrenceville - telephone Lawrenceville 88

Gest Oriental Library, 20 Nassau Street - telephone 2300 - Extension 253

Dr. Nancy Lee Swann (Curator), 7 Greenholm - telephone 891-R
Dr. Kei-won Chung (M*) (Member on leave of absence)
Mr. Tung Yiu (M*) (Member), 33 Witherspoon Street - no telephone

Princeton Graduate College

Mr. Hans Baron (1944-1945) Address Now: 8 Lawrence Road
Wellesley 8, Massachusetts
Professor Oliver Stroopk, 110 Prospect Ave. - telephone 2261

* Addresses now:

Home: 28 East 10th St, New York City
Office: Room 4706, 40 Wall St. New York City

M-Married

*Wife not in Princeton

**Sister in Princeton

Dorkman?

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OF THE LEAGUE OF NATIONS ON MISSION AT PRINCETON, NEW JERSEY

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- Mr. John H. Chapman (M), 98 Nassau Street - telephone 2374
Mr. Paul Deperon (M), 66 Wiggins Street - telephone 1147
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Mr. Martin Hill (M), 321 Nassau Street - telephone ~~1647-W~~ 1830
Mr. Miroslav Kriz (M), 42 Murray Place - telephone 1347-J
Mr. John Lindberg (M), 3 Newlin Road - telephone 1388
Mr. Alexander Loveday (M), 7 Greenholm - telephone 2007
Mr. Constantine F. MacGuire (M), 245 Nassau Street - telephone 1668-J
Mr. Ragnar Murkse, 301 Nassau Street - telephone 1537-M
Mr. Ansgar Rosenberg (M), 179 Prospect Avenue - telephone 1211-M
Mrs. Phyllis van Ittersum, 306 Nassau Street - telephone 450-J
Mr. Percy Gill Watterson (M), 76 Library Place - telephone 1110

With the announcement of its intention to establish a School of Economics and Politics, the Institute for Advanced Study once more impresses itself keenly upon the Princeton community as an invaluable agency in pushing forward the frontiers and, to speak selfishly, an inestimable supplement to Princeton in its graduate work.

Already the School of Mathematics, drawing so heavily from Princeton's Department, has borne rich fruit, and this community's position as perhaps the greatest center of mathematical study upon the American Continent is rendered even more impregnable. And the same procedure, we hope, bids fair to repeat itself in the case of these social sciences. The proposed School will attempt a "reexamination of political and economic theory," and "with absolute freedom of thought, opinion and expression, study the economic and political phenomena of our own items." In this time, when in so many countries the heavy hand of arbitrary censorship is crushing the impetus for free thought and untrammelled investigation, such a reaffirmation of academic freedom is a welcome note. And certainly, in this period of economic change, when so much that we formerly accepted upon blind faith, as the truth, is being upset, a reexamination of political and economic theory is very much in order.

The connection which has been established between the Institute and the University will be maintained. Students in either institution may avail themselves of the facilities of the other without any additional cost. Two such academies of learning in the same community could not possibly attempt to exist side-by-side without some mutual cooperation; else the cause they are both seeking to foster would suffer greatly. Now that the Institute has undertaken to broaden its research work, taking in its scope both those principles which affect the everyday relationship of men to each other in earning their livings and those imponderables which relate man to the structure of his universe, let us hope that this cooperation may continue in geometric progression. By it the cause of higher learning and the advance of scholarship will be incalculably promoted.

PLANNING THE FUTURE ECONOMIC STATE

Salter Discusses the Questions Raised by The Vast Program In This Country

By Sir ARTHUR SALTER

THE program undertaken by President Roosevelt in the last six months has placed the question of planning within a capitalist State upon an entirely different plane. It has passed in a moment, and upon a vast scale, from theory to practice. If we take into account the comprehensive scope of the proposed regulation and control, the size and complexity of the economic structure to which it is applied, and not least the velocity of the whole process, it is clear that no government has ever undertaken so vast a task in time of peace and without revolution.

This vast experiment raises questions of the first importance which cannot yet be certainly answered but may be usefully discussed:

Is there really a tolerable half-way stage between capitalism and communism? Are effective planning and control compatible with economic and political freedom? Can we devise a new framework of law, customs and institutions within which free enterprise and competition can find a place without intolerable abuses?

To what extent is new regulation now required to repair merely temporary defects in our economic structure resulting from the strain which followed the war, and to what extent is it necessitated by more permanent changes in our economic life and methods? Must we contemplate the new measures as a temporary scaffolding from which the main structure of society will emerge much as it was before, or will the whole structure be substantially and permanently different?

Since planning will necessarily be carried through by national governments, it will be at least in the first instance upon national lines. Will the system which so grows up be compatible with world trade and the development of economic life upon a world basis? Should planning ultimately be national or international? How can the national unit be reconciled with a world system?

Lastly, what will be the main character and physiognomy of the new structure of society which is being created?

To these vast questions we can only suggest the most tentative and provisional answers. And our best approach will consist in a discussion of the fundamental facts from which the present movement originates.

ORDERED economic progress depends upon two different kinds of factors. There must be sufficient material resources and the knowledge, skill and industry to utilize them. We need to be able to produce enough to satisfy human needs. There must, however, also be a system which enables specialized activities to be so adjusted to one another that they combine to produce wealth without waste or destructive reactions, and the product to be justly distributed. We need to regulate our productive capacity.

Now the relative importance of these two factors differs enormously at different times. Until the industrial revolution the fundamental factor was scarcity. The resources of nature to which men had access were insufficient, or the scientific knowledge and applied skill required to exploit them were lacking. The vast bulk of mankind was doomed inevitably to the barest of existence. Several consequences followed inevitably. In a world of scarcity, competition—between individuals, between classes, between countries—was the predominant element in human relations. And the first need of any economic or social system was to give the maximum

stimulus to industry and to invention.

After a century and a half of scientific invention and improved industrial organization, this situation is entirely changed. We have enough knowledge and skill to produce not only the necessities but also the reasonable luxuries of all mankind. But the problem of using the productive capacity at our disposal, involving as it does the co-ordination of infinitely varied specialized processes, is immensely more difficult. The principal task of man today is not to increase productive capacity but to construct a system within which the capacity already available can find its full scope and its products be justly distributed.

The effect of this fundamental change will be not to abolish competition but to make it of less importance than it has been in the past in relation to combination and cooperation. The point may be best illustrated by imagining the position of two men on a desert island on two different hypotheses. The first is that the resources of the island are so limited that, whatever the effort put into developing them, they will not suffice for the reasonable needs of both; the second is that they are potentially so rich that, by the combined effort of the two men, they can be increased many times and be amply sufficient for all needs.

The natural result in the first case would be a desperate struggle, each man trying to obtain the larger share; and, in the second, that

competition would be secondary to cooperation. The first hypothesis corresponds with the position of man throughout the ages until the Industrial Revolution; the second with his present position after a century and a half of scientific invention and its application to industrial production.

Modern mechanization is thus inevitably changing the structure of our society. The almost illimitable increase in productive capacity which it promises is causing large-scale organization and increasing combinations tending toward monopoly. It will, in time, though not at once, doubtless lead to the replacement of intense competition by greater cooperation between nations.

IN the meantime the same force is profoundly modifying the economic system in another respect. The function of individual competition in the laissez-faire system of the nineteenth century was not only to stimulate activity; it also, through a changing price system, adjusted supply to demand and each one of an infinitely complex series of specialized activities to all the others. The profound changes in economic organization which attend modern mechanization are obviously interfering seriously with this function. The economic system is becoming less elastic and adaptable and proving less and less capable of effecting the adjustments required by changing conditions.

It is true, of course, that the disturbances resulting from the war have thrown an altogether abnormal

strain on the system. But it is also clear that, even apart from this temporary and exceptional factor, the old economic system is failing, and destined increasingly to fail, in its essential task of securing that our productive capacity is fully utilized and that its products are justly distributed—in other words, that each increase in productive capacity is attended by an equal increase in consuming power.

Under these conditions the problem before the world is not merely how to escape the present depression; it is how to transform its system to meet the new needs. Can we so change our system that we can meet these needs without sacrificing the essentials of political and economic freedom?

That, in my view, is the distinctive task of our generation. I believe that we can. Let us now consider, necessarily in bare outline, the structure of the new economic and financial system required.

It will be well to start with a few guiding principles. If we are to have a planned and directed system which is compatible with both political and economic freedom, the planning and control cannot be left to government alone. The task is too vast and intricate. Government can only control a vast and complex system by methods which would be destructive of all freedom. It is inside the system itself that we must find those who will, in the main, plan and control—and they must do so through their own institutions.

The economic system needs, in

fact, what I may call an "institutional self-discipline," aided but not in detail directed by the government. It must, in every sphere, develop appropriate institutions through which, to the extent required, individual activities can be regulated.

Those who occupy directing positions in every sphere must regard themselves as having not a single but a double responsibility. First, they must conduct their own business efficiently. Second, they must construct, in cooperation with others engaged in similar activities, a framework of general policy and regulation which will prevent the action of the individual in business from reacting destructively upon others or upon the general public interest.

With these principles in mind let us look in turn at each of the main sections of our economic and financial system and see what is needed to adapt it to present conditions. We shall be guided by the obvious defects, abuses and deficiencies which have developed in each case.

THERE is first, naturally, the currency system. What we need is a currency which will give a reasonably stable medium of exchange for our transactions. The mechanism is available and the methods are known. But the existing currency authorities, the central banks and the treasuries, with their respective functions, need to adopt and execute a policy more directly related to the needs of economic develop-

(Continued on Page 16)

PLANNING THE ECONOMIC STATE OF TOMORROW

Sir Arthur Salter Discusses the Questions of Cooperation and Control That Are Raised by the Vast Program Begun in This Country

(Continued from Page 3)

ment. Currency must expand so as to correspond with, and encourage, but not to outrun current and immediately prospective production. These activities need therefore to be linked up with the general national organization which will be described presently, culminating in a National Economic Council.

Moreover, international trade requires that not only should the price level of a particular country be stable, but that its exchange value with other countries should also be stable. This means a co-ordination of monetary policy between different countries, and an instrument, such as the Bank for International Settlements (which is in effect an association of central bankers), through which the policy can be carried out.

The instrument exists, and only needs development. But the policy needs to be agreed upon and, through both a national and international machinery, to be linked to the economic policy on which it depends and of which it must be the servant.

LET us turn now to the credit system. The present abuses and defects are evident. In each country, I suggest, the flow of capital should be regulated by a National Investment Board. Such a board would, in my view, consist partly of government officials, but mainly of those who direct the actual credit system through the banks. It should be closely linked with the central economic policy of the country and should thus be in a position to judge how far at a given period foreign lending is desirable, and in what, if any, directions it is necessary to economize in the use of capital.

The board's powers should be mainly negative; that is, it should forbid certain classes of issues, but not positively direct and enforce investment, capital continuing to find its way to the most profitable fields of investment as at present, subject only to the definite prohibition prescribed.

But the board might do more than this. It should stimulate a professional organization among issuing banks which would establish greater support for the investor and discourage, or by its collective influence make impossible undesirable types of loans or loans unaccompanied by sufficient investigation and safeguards. Action of this kind is especially necessary in regard to foreign lending, especially to governments and public authorities, where the abuses have proved most serious.

The problem is a manageable one, for foreign issues are substantially in the hands of some half a dozen houses in the United States and an even smaller number in London and Paris. Agreement between those who direct this small number of institutions would be sufficient. Collectively they would make it impossible for any issuing house to tempt money from the investor for any loan which did not satisfy the conditions they agreed to be necessary.

WHEN we come to industry we come to a more difficult problem, because the units of organization are so much more numerous and more varied. Nevertheless, for the great bulk of industrial activities, the adjustments of supply and demand can safely be left to the ordinary competitive process subject only to such general regulation as the government can impose. It is only in relation to the very large industries which have become so organized as to have a semi-monopolistic character that special action is needed.

In these industries effective competition has so far disappeared that it cannot be relied upon to adjust supply to demand, and their

financial resources and scale of production are so great that they may be a decisive factor in the movement of the trade cycle. It is therefore essential that the automatic price-system of adjustment should be supplemented by deliberate policy and that this policy should be determined by the general economic position.

The very fact that these particular industries have developed on such a scale as to impede the normal working of the price-adjusting system means that they are in the hands of a manageable number of

mental action but also with the main principles governing expansion or restriction of production in the case of certain basic commodities and manufactures.

WHAT would be the main principles of the system here outlined? First, control and regulation would be limited, both in range and in character, to what was absolutely necessary. The free system, and the normal working of competition, would be left to operate just so far as it did not result in obvious waste or abuses.

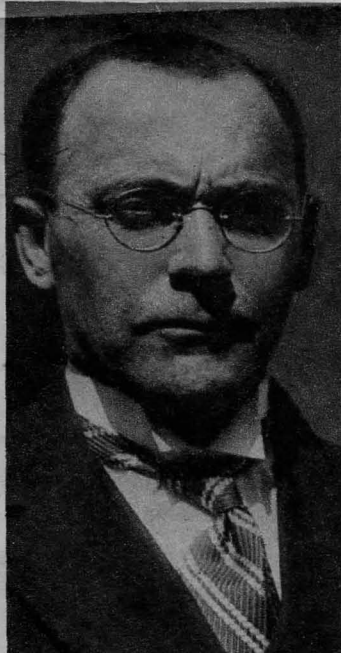
A deliberate collective program might, for example, be required for steel production, but the ordinary competitive system might be left to decide how many people should make radio sets or razor blades. So, too, when a collective program was necessary, control would be limited to seeing that it was carried out, and would not penetrate into the detail of industrial organization.

Secondly, the whole system should be conceived of as growing up from below, not imposed—though it might be guided—from above. It would be better, for example, that those engaged in foreign lending should, subject to certain safeguards, themselves develop and apply the rules and methods required to protect the public interest. And the ultimate central authority should similarly be composed in the main of persons drawn from those who occupied actual directing positions in the business world and were taking part, each in his own sphere, in the appropriate specialized regulation and control. That is, the system should be one of economic self-government, not of State management.

Lastly, the government in such a system would have a rôle at once limited and invaluable. It would supply guidance, coordination, stimulus and—when necessary, but only then—compulsion. It would supplement by direct State organization where private organization failed. But even in regard to such functions it should act on the advice of those engaged in actual economic activity and in the direction of the external institutions described.

SUCH a system would be one of real economic self-government. It would be elastic and adaptable to changing needs. It would allow room for freedom of enterprise and choice, while providing just enough control to stop actual abuses. It would leave the price system functioning, but supplement it where it was failing. It would be not so much a middle way between laissez-faire and communism as a selective combination embodying the best of both and avoiding their defects.

It is, I believe, only on these lines that we can retain the essentials of freedom and still secure a tolerable working of modern economic institutions. This is the kind of structure of society to which the world is tending, unless the continuous constructive intelligence which it requires should fail and face us with the bleak alternatives of chaos or a system incompatible with either political or personal freedom.



Associated Press.
Sir Arthur Salter.

persons. These persons could be united in an industrial council and could wield a sufficient authority to determine policy throughout the industries concerned.

Let me take one example of method. If it became evident, at a given moment, that expansions were proceeding to a dangerous point which was bound to lead to overproduction, a reaction and a slump, the whole situation could be substantially relieved, without any need for fixed quotas, by a temporary suspension of the system of instalment sales. This would at once reduce production just when this was necessary and would preserve purchasing power for the coming period of falling demand.

IT is obvious that each of these proposed institutions, concerned with currency, credit and industrial policy, would need to be closely linked up to central policy. The obvious instrument for this is a central economic council composed of representatives from the sectional institutions referred to and also of persons of other forms of experience, including economists and government officials. The effectiveness of such a body depends upon its members being really representative. An externally composed body will never obtain the necessary action throughout the whole economic organization.

To the extent to which the economic life of the world is on a wider than national basis, such a system must be international and not national. An international industrial council could be formed of delegates from national industrial councils; a central currency authority could be composed of the principal officers of national central banks, and so on. At the apex of the whole system there could be a world economic council, composed of delegates from national economic councils and comprising every form of experience and activity, official and unofficial alike.

Through such a system the main framework of economic and financial policy would be developed and in turn executed throughout the independent units so linked up. And this policy would deal not only with currency and tariffs and govern-

9/7/39

THREE ECONOMISTS ON ADVISORY GROUP

Morgenthau Appoints Viner,
Stewart and Riefler to Be
Members of Board

DAILY PARLEYS ORDERED

Committee, Including Three
Bankers, Will Confer With
Secretary Regularly

Special to THE NEW YORK TIMES.
WASHINGTON, Sept. 7.—Secretary Morgenthau rounded out his emergency advisory group today with the naming of three economists in addition to the three bankers already named.

The three are Jacob Viner of the University of Chicago, who has advised the Treasury from time to time in the past, and Walter W. Stewart and Winfield W. Riefler, both of the Institute for Advanced Study, Princeton, who will be "loaned" to the Treasury by their academic authorities.

The two Princeton men have both served the Federal Reserve System in the past and are familiar with government work. Mr. Stewart was formerly the American adviser to the Bank of England.

Secretary Morgenthau said he was sure the Princeton men would be "dollar-a-year" men, like the three bankers named as advisers earlier in the week, but he was not sure whether Dr. Viner would be paid by his university or by the Treasury.

The three bankers are W. B. Burgess, vice chairman of the National City Bank of New York; Tom K. Smith, president of the Boatman's National Bank of St. Louis, and Earle Bailie, chairman of the Tri-Continental Corporation and a member of J. W. Seligman & Co.

Secretary Morgenthau said at his press conference today that he would confer with his six advisers daily. The role of the three economists, he said, would be to anticipate, so far as possible, the financial situations which the emergency might produce.

"As new problems come up they will advise and assist me," he said. "They will try to anticipate developments before they happen and help me to avoid pitfalls. These men have the reputation for being the best-posted people on international finance and economics. After all, during this war period we are on uncharted seas and naturally I want this kind of help."

The Secretary said that he still had to fill two vacancies with assistant secretaries and that one of them "will have to be a business man."

Basil Harris, who resigned as vice president of the United States Lines to become Commissioner of Customs and assistant to the Secretary, was sworn in this afternoon. He will be in charge of all of the Neutrality Act enforcement for which the Treasury is responsible through the Bureau of Customs and Coast Guard, and will generally confer with the Administration on shipping.

"The Treasury Department has been fully prepared to handle the heavy responsibilities with which it is charged under the Neutrality Proclamations of the President," Secretary Morgenthau said for recording by sound news camera men after Mr. Harris was sworn in.

"We are prepared to carry out the definite police powers assigned to us with respect to vessels arriving at and about to sail from ports of the United States."

Mr. Harris spoke a few words about his willingness to be drafted into government service on twenty-four hours' notice, and hurried from the swearing-in ceremony to have a tooth pulled. That was his first act in Washington after taking the oath of office.

May 19, 1945

Faculty Minutes

Pg. 95

Participation

INSTITUTE MEMBERS IN RESIDENCE FOR TWO YEARS OR MORE

- (Dr. Valentine Bargmann - Mathematics - *on salary* -)
- OK. Dr. Hans Baron - Humanistic Studies
- Richard P. Blackmur - Economics
- X Kei-won Chung - Gest Oriental Library
- OK. Paul A. Clement - Humanistic Studies
- Charles de Tolnay - Humanistic Studies - Three year appointment to terminate June 30, 1948
- OK. Paul Frankl - Humanistic Studies
- Rensselaer W. Lee - Humanistic Studies
- Friedrich Lutz - Economics
- Robert Schatten - Mathematics
- X Tung Yiu - Gest Oriental Library
- Clarence D. Wong, Jr. - *checks* -

3/5/46

October 5, 1939

My dear Dr. Flexner:

Thank you for your letter received this morning. I had intended to write more at length to explain precisely what I was doing, and why, in my opinion, it is an undertaking appropriate for the Institute -- for, as I explained to Dr. Goldenweiser when he introduced the subject of compensation, either the undertaking fell within the intent of the Institute, in which case no compensation was admissable, or it fell without, in which case the undertaking was inadmissable.

Last Spring Senator Wagner, Chairman of the standing Senate Committee on Money and Banking, introduced a resolution calling for a "study" of the objectives of monetary policy. In the debate, it was developed that he did not propose an "inquiry" or "investigation", much less a smear campaign. The resolution was passed, and the Federal Reserve Board undertook to prepare a formal statement to open the hearing. This statement was projected as consisting of about fifteen historical, descriptive, and factual papers, prepared by individual members of the staff.

The first drafts were submitted about the end of September, and disclosed two things: (1) The papers ran between 50 and 100 typed pages a piece, while the limit was approximately 20; and (2) the papers, individually prepared, did not form a clear cut entity as a whole, nor could they be so grouped as to give a defined picture of the several major aspects discussed .

SEP. 1934-9

At this point, Dr. Goldenweiser suggested that Mr. Woodward (a close friend of mine) and I be invited to edit three papers, and it was for this purpose that we were brought here. We studied the papers, and came to the prompt conclusion that the project required much more than editing. It required (1) a formulation of intent, (2) a design of organization of material to further this intent, (3) a complete recasting of most of the papers, and (4) the preparation of several additional papers to cover omissions in the material.

Numbers (2), (3) and (4) have been proceeding under some pressure. The Hearing was scheduled for October 15, and if it is called for that date, it can be done. However, Mr. Woodward and I early made the strongest representations for postponement, and this is almost assured -- not on our account, but because of the absorption of the Senate in the Neutrality Legislation. The formulation of intent, which seems to precede the other parts of the program is actually slow and difficult. It was originally stated to be no more than, as was said above, the presentation of historical, descriptive, and factual material; but it had been overlooked that the baldest description, by its arrangement and conscious or unconscious emphasis, conveys an intent to a committee, and may convey a wrong intent by the very effort of endeavoring to avoid conveying any.

This has necessitated (a) a very close study of the papers as presented, and (b) an independent study on our part of the entire subject of the banking system of the United States, of the actual (as contrasted with the presumed) relation of the Federal Reserve System and the Banks, and the involved relations of the Federal Reserve Board to other Federal agencies.

While we have been obliged to work against the scheduled date of October 15, we have in fact outlined a program that will keep us fully occupied to the end of the month. By November 1, we hope to have this program so well in motion that our continuous presence will no longer be needed, although we anticipate that our attention and occasional visits will be expected over an indefinitely longer period.

While in some ways, it would have been easier to have ghost-written much of the material ourselves, we determined against this method, partly because of an ulterior design we have in view. We intend to suggest to members of the staff certain projects of continued study extending beyond the time and even the scope of the Hearing, and this would be discouraged if we ghosted the present requirement.

I might add that our situation has no political aspect whatever. The questions to which we are addressing ourselves are questions of organization, administration, and technique; where they go beyond that, they are questions of objective monetary economics. While the Hearing will no doubt develop political angles, we intend to keep entirely aloof from them.

It seems to me that this entire undertaking falls within the intent of the Institute.

- a. It requires "advanced study" of the money and banking system on my part.
- b. It contemplates outlining of projects of "advanced study" by individuals who are members of an extremely competent staff of persons whose professional careers are midway between the theoretical and applied in one area of economics -- money and banking.

- c. The undertaking itself is in the public interest, in that it is designed to improve the present administration and organization of the nation's banking system. As such it has certain claims upon the comparatively few persons who combine a presumed professional competence with time-freedom to employ it in such service.

I believe, therefore, that our joint decision as to the propriety of my engaging in the undertaking, which at the time it was made was only a hazard, has been and is being justified by the development of the undertaking.

At or near the end of the month, I will make another report, carrying the narrative down to that phase.

I am sorry to hear about your laryngitis. It has been epidemic this autumn. I trust that by now you are entirely recovered. Please give my remembrances to Mrs. Flexner.

Very respectfully

Robert Warren

Tietler

WHR

SEP.

Essays in Government

Should Elections to the House be Staggered?

On the front page of the New York Times recently there appeared an appeal, taken verbatim from the German radio, seeking for Allied clemency; in close proximity the editor placed a second appeal, from President Roosevelt to the Congress for legislative action on the problem of civilian manpower. It may seem strange that a country like the United States which had gone "all out" for the war should still, in the very hour of triumph following years of effort, be haunted by apprehension that civilians at home would quit their war jobs before final victory.

To the politically initiate, however, there was nothing strange in this contrast. They know that while our democracy is capable of making great decisions, it will frequently procrastinate almost to the limit of disaster in providing adequate implementation. Those of us who happen to be familiar with the history of the efforts to mobilize civilian manpower know that the government long ago appreciated the importance of more adequate legislation and requested Congress to deal with the problem adequately. We also know that this request was not pressed in 1944 when action would have been most appropriate, because a Congressional election was approaching. Congressmen have learned from long experience that their constituents are likely to react unfavorably to a specific vote for legislation that steps on local toes. Cases in which the voters punish an individual Congressman for failure to press needed legislation are much more rare. The Congressman has learned that election to the House is determined primarily by "local" issues. Under these circumstances, he is inclined

for a moment in the spotlight of national affairs and basking in the headlines of the metropolitan press, might achieve a new realization of their importance to the nation.

It is equally conceivable that this same process might tend to raise the quality of Congressional aspirants. It would certainly serve to increase the dignity of membership in the House and to eliminate in some measure its present anonymity.

Repercussions in the Party Organization of Congress

In Washington itself, the effects of staggered elections to the House would be direct as well as indirect. At present a new Congress is organized biennially in January to take account of the new elections. It is then that the majority take over, that the Speaker is chosen, and the all-powerful committees are selected. Clearly a system of staggered elections would force a drastic change in this procedure, since the party that organizes the House does so because it controls the votes of a majority of its members. Under a system of staggered elections there would be no sudden shifts in this majority, there would be no predetermined date such as January of odd-numbered years requiring a new organization of the House. It would be necessary on the other hand, to undertake reorganization of the House whenever the majority actually shifted, as a result of elections in the preceding month. Such a reorganization would clearly constitute a major event in our political life in some sense analogous to the quadrennial election of the President.

It is impossible to forecast how this problem would be solved. It is possible to speculate that it would not be worked out constructively in such a way as to increase the authority and responsibility of the House. It might, for example, have the unfortunate effect of increasing the individualism and factionalism of the House membership and thus weaken the two-party system. On the other hand,

national issues might become so important in the continuing elections to the House as to increase its responsibility for initiating public policy. In other words, it might induce a shift toward parliamentary government. In this case, the majority party would be forced to insist that the Speaker, the Committee chairmen, the power Rules Committee and the Ways and Means Committee consist of the outstanding membership with less emphasis on seniority.

Amendment to Constitution

Prior to the adoption of the XI Amendment to the Constitution in 1933 it would probably have been possible to adopt a system of staggered elections without a constitutional amendment. The original Constitution provides only that members of the House of Representatives be elected for two-year terms. The Fathers undoubtedly envisioned simultaneous elections at two-year intervals, but there is nothing in the original written document to preclude the procedure here proposed. The XI Amendment, however, which provides for inauguration of a new President on January 20 instead of March 4, is specific in stating that the terms of members of the House shall begin on January 3rd. The actual adoption of a system of staggered elections to the House, therefore, would require a formal amendment to the Constitution.

to play safe, particularly in even-numbered years, when he must leave Washington to campaign for reelection. If the Administration comes forward with legislation of the type of the manpower bill which touches intimately most of his constituents, he will seek to have consideration postponed to an odd year, i. e., the session of Congress coming just after elections. If it is passed in an odd year, the people have a longer time to become adjusted to it, or may have forgotten its inconveniences by the time election comes around. This illustration given above, of the manpower bill, is not unique. It can be paralleled in every recent session of Congress. In 1943, for example, the Trade Agreements Act was renewed for two years instead of three so that its next renewal would fall in 1945 just following the election of 1944 rather than in 1946 just preceding a new appeal to the electorate.

The timing of legislation, however, not with reference to its occasion or necessity, but rather to the approach of elections, does not express itself solely in postponement. The ever recurring biennial election may have the effect of hastening legislative action, if such action appeals to the wishes of broad pressure groups. The Railroad Retirement Act of 1934 is a case in point. I remember vividly the frantic efforts of the proponents of this Act to get it reported for a vote on the last day of Congress in June of that year, a vote which they were confident would be favorable because of the impending elections. In this case the general purpose of the Act was warily endorsed by the Administration but there was some desire to postpone action on separate retirement legislation for the railroads until the next session when the more general provision for old age pensions then being formulated would come up. The Frasier-Leake Bill of 1934,

dealing with farm bankruptcies, which was also passed in the closing hours of that same Congress, constituted another example of this same practice. It was generally recognized that this piece of legislation was badly drawn, but when Senator Huey Long managed to get it reported out of Committee, the favorable vote of both Houses was certainly affected by the impending elections. It was rumored that many who supported the bill expected that it would be invalidated by the Supreme Court. It is significant that there was relatively little outcry when this happened.

The above cases could be multiplied many fold. The history of the Soldiers' Bonus constitutes another case in point. In fact, an illuminating analysis of legislative action could be made, purely from the point of view of its timing with reference to impending elections. It would be found, I think, that legislative enactments that are clearly in the broad national interest but which at the same time are likely to waken resentment on the part of special pressure groups, tend to be passed in the odd years between elections. Legislation to which there is legitimate objection but which is popular with such groups, on the other hand, is either smothered in Committee, or is likely to be passed in the session immediately preceding an appeal to the voters. Frequently this is done in confidence that the legislation will be thrown out by the Supreme Court.

Clearly this is a situation which cannot be allowed to persist. In the recurring crises of recent years there have been too many occasions when the national interest required immediate Congressional consideration and action. We cannot afford to wait for odd years when such consideration is more convenient to the individual member of the House. It is not in the broad interest of

democratic procedure, likewise, for Congress to come to regard the Supreme Court as a lightning rod. This is a situation, therefore, that requires remedy.

Unlike many other problems of democracy, where reform is essentially a matter of spirit and attitude rather than of machinery, this particular problem can be remedied by a Constitutional amendment since it arises purely out of a defect in the mechanics of our Constitution. It reflects the fact that members of the lower House of Congress are elected practically simultaneously in the autumn of even-numbered years. Being purely mechanical in origin, it lends itself to mechanical solution. The remainder of this memorandum is devoted to an exploration of one mechanical device by which this defect could be corrected, namely, an amendment to the Constitution to provide for a system of staggered election for members of the House of Representatives.

A System of Staggered Elections to the House of Representatives

The proposal in its essence is that members of the House of Representatives continue to be elected for two year terms, but that these elections be held at staggered intervals. At present Congressmen in all states except Maine are elected in early November of even-numbered years, to take office at noon on the third of January of the following odd-numbered years. Under the system of staggered elections here proposed, members of the House would be elected throughout the year, so that the House would be a truly continuing body in which a handful of members were always up for immediate reelection, but in which the great majority of members would be secure in their terms for a considerable period. Under this system no period would be more favorable than any other for the consideration of any particular piece of legislation, from the purely mechanical

standpoint of its timing.

To make the proposal concrete, and as simple as possible in exposition, let us suppose that the present membership of the House of Representatives were raised by five seats from its present limit of 435 constituencies. This would provide 440 seats, a number evenly divisible by 22. If this were done, it would be possible to maintain the two year term and at the same time to hold elections for 20 members of the House continuously in every month of the year except November when the great national and state elections are held. This would mean that in each district where an election for the House was held, the selection of the new representative would be the sole or main order of business of the voters. Attention would not be distracted from the election, its issues, or the relative fitness of the candidates by the competition of simultaneous Presidential, Senatorial or Governatorial elections. The twenty seats in which elections were to be held each month (excepting November) would be scattered geographically so as to provide that each month some elections would be held in the South, some in the East, some in the Middle West and some in the Far West. They would also be so scattered that a certain proportion would be held in urban and in rural constituencies respectively.

From the national point of view, this simple mechanical device would completely eliminate any defect in our elective system for the House which tends to periodicity in procedure. It would end the practice of considering "unpopular" bills in odd-numbered years and "popular" bills in even-numbered years. It would also bring about a very considerable change in the organization and functioning of Congress. From the local point of view of an individual constituency, there would be much less change from the present system. In each constituency an election for the House would still be held regularly every two years. It would not,

however, be held simultaneously with other, frequently more important elections, in November. This would be its chief difference. The main local objection to the change might well be concentrated on the additional cost that would ensue if elections for the House were held separately from those for other offices.

Would Staggered Elections have other effects?

We may take it for granted, I think, that this device, if adopted, would eliminate, so far as the House is concerned, any and all effects now resulting from its system of simultaneous biennial elections. That it would do so is a truism, since it would eliminate their cause. What, however, would be its other effects? Our Federal government is a delicate instrument, the result of long evolution under a written Constitution as well as under unwritten but equally compelling customs and practices. It could easily be thrown out of balance in ways never suspected by proponents of reform. It is essential, consequently, to explore the proposed device, not primarily from the point of view of the defects which it is designed to eliminate (its efficacy in that field may in this instance be taken for granted) but rather from the point of view of its collateral effects on the quality and competence of our Federal government. Before proceeding to consider these effects in detail, it should be noted that this proposal would accentuate further one basic difference between our system and the Parliamentary system as practiced in Great Britain. There elections are never timed in advance, but are held on a specific issue arising out of a government defeat in the Commons and its appeal to the country for vindication. Here elections are held regularly as provided in the Constitution. Much has been made of the success of the British system in focussing attention of real issues, but faith in this advantage has been tempered considerably by the inter-war experience when elections

frequently occurred on issues trumped up by the Government on which to appeal to the country for a renewal of its mandate. It is debatable whether the American system, insisting on recurrent elections, does not in general secure more continuous contact with the public. In any case, there is little chance that we will depart from the present system of recurring elections timed in advance.

(a) Continuing Popular Referendum

If elections to the House were staggered as is here proposed, the possibility arises that they will constitute a continuing barometer of electoral sentiment, much more precise from a purely political standpoint than existing devices for maintaining popular contact, such as the representations of pressure groups, editorial comment, and public opinion polls. This would be a highly desirable achievement. No problem tests more basically the political instinct of the incumbent in Congress or the candidate for election thereto than that of distinguishing coldly and clearly between voting sentiment, on the one hand, and popular preferences and political propaganda, on the other. Examples could be cited indefinitely to prove the non-identity of these concepts. The candidate for reelection, for example, cannot take the press at its face value, since scarcely an election passes without a considerable number of candidates who were successful despite opposition by all or a preponderant part of the press. Nor can the Congressman afford to take public opinion as his sole guide. The history of the public opinion poll is short, but it has already furnished a multitude of instances where dominant popular attitudes within a constituency have been consistently at variance with the majority vote of its representation in Congress. These representatives, moreover, have continued to be reelected.

Anyone familiar with Congress can cite numerous cases, likewise, of instances where pressure groups, despite their great and obvious power, have failed to prevent the reelection of an incumbent who had defied them, or even seriously to affect his popular majority. These instances are not cited to indicate that press sentiment is unimportant, that public opinion polls are inaccurate, or that pressure groups and lobbies lack political strength. The attention paid to all three of these devices by experienced politicians belie such an inference. What they do show is that all three are highly fallible as indications, not of how voters feel about particular issues, but of how far these feelings will govern their votes at the next election.

This is the decisive factor in a democracy. Every Congressman, including those that are deeply conscientious as well as those who are primarily opportunist, must take into account, in every action of their public life, its effect on their chances for reelection. It is important that they know how the various elements in their constituencies feel about pending public issues, but it is even more important, in fact it is crucial to their political existence, to know how these same elements will react at the polls.

It may be that regularly staggered elections will help to solve this problem. Under such a system, all Congressmen could observe each month the actual reaction at the polls of voters in twenty widely scattered election districts. These twenty districts would not possibly constitute a scientific balanced sample of the United States, but they would comprise a good rough sample, and, moreover, a cumulative one, as elections went on from month to month while crucial public issues were up for debate and decision. Under these circumstances the skilled politician would be in a position to read political trends more accurately, to

see where the preference of voters as expressed in public opinion polls were sufficiently intense to affect their voting attitudes and where they were not, to distinguish between lobbies genuinely representing the outraged feelings of minority groups and lobbies engaged merely in the process of capitalizing political apprehensions, to discern when editorial opinion was in tune with its community and when it was diverse. It is generally thought that the occasional bye-elections held in Great Britain to fill vacancies to the House of Commons perform this function. It may be that it would be much more adequately performed in this country by staggered elections. If this should eventuate, it would contribute greatly to the revitalization of the democratic process, for representative bodies cannot be expected to perform responsibly and courageously when they are unsure of their mandate.

Quality of Memberships

The factors determining American political vitality lie very deep, so deep that wide reaching mechanical reforms such as the direct primary, the popular referendum, and even woman suffrage have exerted only minor effects upon the level of political activity or the quality of its personnel. It may well be that a minor mechanical change in the timing of elections such as is here proposed, would be equally unnoticeable so far as these two factors are concerned. The special elections now held from time to time to finish out the term of a deceased Congressman have certainly not differed greatly from the regular elections with respect either to the level of the local debate or the quality of the aspirants. There is a possibility on the other hand that if elections to the House were regularly staggered, the importance of "national" as contrasted with "local" issues in Congressional campaigns would be increased and also that membership in the House would gain

prestige. This would tend to come about if the national leaders, aware that the existing organization of the House was not immune from upset at the polls, undertook actively to play a role in the twenty local elections held each month.

I would be willing to wager that if a Gallup poll were taken today throughout the United States it would be found that more than 70 percent of the voters would be unable to give the name of their representative in the House of Representatives, that more than 80 percent would be unable to name his leading opponent at the last Congressional elections, and that more than 90 percent would fail dismally if they were asked to give his stand on important but controversial national issues now up for consideration in Congress. It is obvious that staggered elections would not of themselves reverse this situation. It is possible, however, that they could be made a vehicle, and a very effective one, in its amelioration.

This fortunate result would ensue to the extent that our responsible national leaders were forced by the exigencies of politics, the necessity on the part of the majority party, to maintain control of the House, to interest themselves personally and directly in the twenty scattered elections being held each month. If this compulsion were in operation, and it is difficult to see how it could be avoided, the voters in each constituency would experience the feeling once every two years that their choice had a national as well as a local significance. It might be that national leaders would come to speak and to participate personally in each local campaign. The national party organization might be forced to organize definitely to cover this field. If the reform took this direction, it would almost inevitably follow that national issues would be stressed to a far greater extent than at present in each local campaign. Relatively obscure constituencies, placed

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SCHOOL OF ECONOMICS AND POLITICS

Academic Organization

AYDELOTTE, F.

Biographical

STEWART, W. W.

RIEFLER, W.

WARREN, R.

Report of the Director, 1/27/41. *As submitted to WWS & RBW for
Comment by FA.*

Filed in Vertical File under "E" for School of Economics
and Politics.

*As delivered except for intro + credit to AF which
was omitted. Meritly at WWS' & RBW's sug. since it
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Note for Mr. Warren

Dr. Aydelotte will be pleased to have
your comments and suggestions on Saturday in
reference to the attached report for the meeting
of the Trustees of the Institute on Monday,
January 27.

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Inst. year - 5-4

REPORT OF THE DIRECTOR

January 27, 1941

I

Mr. Bamberger has suggested that I should discuss with the Trustees from time to time the developing program of the Institute, as it takes shape in my own mind. I am enthusiastic over the wisdom and skill with which Dr. Flexner has laid the foundations of an educational institution of a type new in this country. Upon these foundations it is now our duty and our opportunity to build. We should do this slowly according to a carefully thought-out plan, which should embody all the wisdom and experience which can be assembled from discussions with our own faculty, the members of our Board of Trustees, and with scholars everywhere who have the insight and imagination to see the contribution which such an institution as this can make to education and scholarship in this country and in the world outside.

It is impossible for us to foresee the future, but we may be sure that, whatever course world events may take, the next decade will make great demands upon us and will present problems which will tax all our wisdom and all our resources. Our task will be not to rival other institutions in doing work which they are already performing satisfactorily but rather to strike out into new paths and to devise for ourselves new ways in which we can serve education and scholarship by methods which universities organized in the conventional manner are not free to adopt. These new paths are not entirely uncharted. There are many institutions from which we can learn much and none perhaps from which we cannot learn something. But we shall fall short of the ideal which Dr. Flexner and the Trustees have adopted for the Institute during the last ten years if we do not make it a unique place, offering a contribution which is made by no other institution of learning at the present time.

The experience of the members who have come here to work makes it clear that the need for instruction does not end with the Ph.D. degree, that hundreds of young scholars, endowed with brains and ambition, flounder in their efforts to widen and deepen their own scholarship and to advance the frontiers of knowledge, for lack of the stimulus and guidance which they might receive from leaders in their fields of knowledge in a place like this. The problem of catering to their needs is difficult and fascinating. It cannot be met by routine methods or by mediocre minds. The difficulty of the problem is only matched by its importance. In so far as we are able to solve it, we shall contribute to the advancement of knowledge and to the strengthening of scholarship not merely in Princeton but in all our centers of learning from the Atlantic to the Pacific and in other countries beyond the seas.

Begin here. In order to lay the problem of our future development before the Trustees I propose to begin, in this and the two or three meetings to follow, by a discussion of the work now going on at the Institute. The methods pursued here at present are as varied as the members of our faculty. This is as it should be in an institution which has no choice but to be experimental. It is only, it seems to me, by understanding the work now in progress that the Trustees can form any clear idea of the direction which growth should take in the future and form any estimate of the possibilities open to an institution of this character.

I shall begin today with the School of Economics and Politics, the work of which is closely bound up with research organizations outside the Institute: the National Bureau of Economic Research, with which Professors Riefler, Stewart, and Warren are all connected, and the American Committee for International Studies, of which Professor Earle is Chairman. Of Professor Mitran's work I shall say nothing today. He is on his second year of leave, working with the Chatham House group at Oxford for the English Foreign Office, on confidential tasks concerning which he is not at liberty at present

to make any detailed report. It should be a matter of satisfaction to the Institute to be able, by its loan of Professor Mitrany's services, to make a contribution to the English war effort.

II

The National Bureau of Economic Research, into which the members of our economics group are putting so much effort at present, was organized in 1920 by a group of leading American economists of which Dr. Joseph H. Willits, then Dean of the Wharton School of the University of Pennsylvania, now in charge of the Division of the Social Sciences of the Rockefeller Foundation, was a member. Dr. Wesley Mitchell of Columbia University is Chairman of the Bureau, and the various Boards and Committees include a large number of the most forward-looking economists from universities, from departments of the Government, from research foundations, and from great banks and business corporations. The work of the National Bureau is an attempt to codify and arrange the vast and complex data of modern economic activity as a basis for a truer understanding of the forces which control economic phenomena in the modern world. It is undertaking to assemble and put into order the facts upon which any science of economics, valid for the present day, must be based. Such a task would be impossible for any man or group of men working as individuals. The only feasible method for performing it is by coöperative research in which a large number of individuals and groups combine their efforts. The need for coöperative research on the ambitious scale on which it is being attempted by the Bureau is widely felt and the work has been generously supported not merely by universities and foundations but also by the Government and by associations of bank and business corporations.

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In 1937 the National Bureau approved the suggestion, made to its Exploratory Committee by the association of Reserve City Bankers, for the initiation of an extensive program for research in finance, looking to a better understanding

of the problems facing the country in the capital market and in banking.

Professor Riefler is Chairman of the Committee on Research in Finance as well as of the Central Administrative and Research Staff. Professor Warren is a member of the Committee on Research, and Professors Stewart, Riefler, and Warren, along with Mr. Douglas of our Board of Trustees, are all members of the advisory conference on financial research.

During the last two and one half years the Committee, under Professor Riefler's leadership, has undertaken three important projects:

1. A comprehensive study of instalment credit
2. The Corporate Bond project
3. The financial structure project .

The study of instalment credit, now nearing completion, has included such topics as personal finance and sales finance companies and their credit practices, the part played by commercial and industrial banking companies and by Government agencies in their business, the pattern and volume of consumer debt, the element of risk, the operating experience of consumer instalment financing agencies, the legal regulations governing consumer financing companies, and the relation of consumer instalment credit to economic fluctuations.

Seven of the twelve projected monographs are already in print; two more are in manuscript form, and the remaining three are in course of preparation. Taken together they present economists, government officials, and business men with the first authoritative account of the volume of instalment credit in this country, the methods by which finance companies function, and the reasons why law, psychology, and prejudice have given this business to specialized agencies rather than to standard banks. We have a careful, quantitative estimate of the volume of instalment finance, the extent to which this credit is used by different income classes and occupational groups, the factors affecting risk, the effect of instalment credit on consumer purchasing power, the effect of economic

fluctuations on instalment buying, and the reciprocal effects of instalment credit on business cycles.

The whole constitutes a study of far-reaching importance of a new economic phenomenon. The study has produced as by-products a new record in coöperation of Government agencies and private corporations in scholarly research and has as well opened up a whole range of new problems for investigation.

The work of the National Bureau in this and other studies has had another result of importance in the training of younger men in the techniques of coöperative research. This result came about almost by inadvertence.

It was the first intention to have the study conducted by senior economists on leave of absence from their universities, but for various reasons this did not prove to be feasible. Older professors were often too busy, too much preoccupied with their own problems, and, in many cases, not sufficiently up-to-date and not sufficiently patient and flexible to adapt themselves to a new method of work. Able younger men, not more than four or five years beyond the Ph.D. -- men of the type whom we welcome here as members of the Institute -- proved better.

This might have been expected, but was not. It is on the whole a most fortunate development. It means that the members of our School of Economics, working at the projects of the National Bureau, are at the same time carrying out in New York one of the fundamental purposes of the Institute in taking capable young men from their positions in the various colleges and universities, training them in up-to-date methods of economic research, and then sending them back prepared to continue such research and revitalize the study of the subject in their own institutions.

The National Bureau is a rigorous training school in coöperative methods. Young men are not asked what they would like to do. They are appointed to perform definite tasks, closely related to a work which other men are doing, to be rigorously checked as parts of a complete whole. Even though they have

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won their spurs in scholarship, they enter this organization as apprentices with much to learn, and they must work not as free individuals but as members of a team. The training they receive in return is the breadth which comes from participation in tasks beyond the power of any single man to perform.

It seems to me that the Institute may be able to do more than that for the best of these young recruits. One of them, Mr. David Durand, who has made his contribution to the work in New York, written his study and had it approved, has now been brought to Princeton for a year of quiet study and reflection, and it seems probable that this procedure will be followed in the case of others in order to enable them to get the most out of their experience. The work of our professors at the National Bureau is thus not merely advancing the frontiers of knowledge but is also training men.

III

The second of the projects of the National Bureau in financial research is the Corporate Bond study. It is designed to carry out the request of the Exploratory Committee for work which would throw light on the standards of investment credit. I think I may say that this is Professor Riefler's pet project. In addition to being Chairman of the Committee on Research in Finance he is also acting as Chairman of the Administrative Committee of the Corporate Bond project and has taken the lead in the organization and direction of the work of the large staff needed for so ambitious an undertaking.

The Bond project is a quantitative study of the experience and behavior of domestic corporate bonds and the terms of corporate bond financing in the U. S. A. from 1900 to 1940. It covers all corporate bonds issued in this country during that period, records the facts about their behavior, interest rates, loss experience, etc., analyzed according to industries, quality, and maturities. It aims to present an exact record of the use of the capital market by business corporations, the types of bonds issued, their terms and purpose, the cost of

borrowing to industries and the net rate of return to investors. It will show the relative merits of agency ratings, market prices, and legal lists as indices of bond quality. It will check accurately the fluctuation of long term interest rates and their relation to capital market activity.

The cost of compiling the data over a period of forty years on
 25000 issues of bonds with a total market value of \$.....^{billions} at first appeared staggering. Nothing like it had ever been done; the task exceeded the resources of any research organization, and it might have proved impossible for the National Bureau had not Chairman Crowley of the Federal Deposit Insurance Corporation suggested that the clerical work involved be made a W P A white-collar relief project, with the National Bureau providing the technical supervision. This was arranged, and a staff of about two hundred clerical workers, costing for the duration of the study about \$300,000, was provided by the W P A. Substantial contributions of funds for supervision and theoretical work were made by the Rockefeller Foundation, the Association of Reserve City Bankers, Moody's Investment Service, and other agencies. In addition, many private corporations and Government Departments have furnished data and technical advice costing in the aggregate a large sum of money. The list of private and public bodies participating in the study includes the office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the Interstate Commerce Commission, the Banking Department of the State of New York, the Federal Reserve Bank of New York, the Central Statistical Board, and the four private financial advisory services: Fitch's Investors' Service, Moody's, Poor's Publishing Company, and the Standard Statistics Company.

The project is essentially a tabulation of data on all corporate bonds issued over a period of forty years, of formidable extent and completeness.

NOTE Corp Bond Study 1900-40
assisted by WPA clerical project
to be made available to all crop
agencies for theoretical studies
this purely quantitative.

See list possible titles below
How many done by WPA & others? ~~at~~ 29-

It includes

1. Data on the volume of corporate bond offerings by year, industry, size of issue, coupon rate, maturities, and types of issue
2. Data on market prices of bonds, yields at offering and yields realized, ratings, earnings of obligors, legal status at times of issue and extinguishment
3. Data on number and extent of defaults, analyzed by industries, types of default and settlement, and realized yields on defaulted bonds
4. Annual data on prices, yields and ratings for a selected sample of bonds
5. Monthly price and yield data for a small group of high-grade and low-grade bonds

The data when completed will be made available to all cooperating agencies for such theoretical studies as they may wish to make. Personally I hope that means may be found by photostat or microfilm to make these tabulations available at moderate cost to university libraries and departments of economics wherever they may be desired. Tabulations so carefully made and so complete will serve as bases for a large range of theoretical studies for a long time to come. The period covered includes the halcyon days before the war of 1914-1918, the war period itself, the boom of the twenties and the depression of the thirties. Among the topics listed in the National Bureau report as suitable for study from these data are: the cyclical behavior of investment values and long term interest rates; the role of risk in market interest rates; the efficiency of various criteria of future investment performance, such as market price, legal listing, agency ratings and corporate earnings; the value, for investment safety, of sinking funds, and of type and seniority of security; the characteristics of bond defaults and the problems which confront investors when default occurs; and the effects of market fluctuations on investment experience. Beyond these, the data will doubtless be used by scholars and financial experts in many ways which cannot now be foreseen.

IV

The third study undertaken by the National Bureau under the direction of Professor Biefler's Committee on Research in Finance is the so-called financial structure project. In a certain sense all three studies are parts of a comprehensive survey of the financial structure of the U.S.A. in the twentieth century.

The third project limits itself to a survey of contemporary relations between bank and business. It undertakes to give a quantitative picture of the changing financial requirements of American business, the trends in commercial borrowing, the future of commercial loans, the demand for short term capital as affected by the cash balances and security investments of large business corporations, which often make them net creditors instead of being net debtors, the growing habit of financing capital requirements internally out of undistributed earnings and depreciation allowances rather than by borrowing or issuing stock. The study should afford an indication as to whether these devices represent a permanent change in the method of financing business operations or whether they are merely transitory phenomena.

The study includes three parts:

1. Trends in the financial structure of American business, 1900-1940
2. The sources and uses of business funds, 1920-1940
3. Contemporary relations between banks and business

Work was begun just a year ago and is still to some extent in the preliminary stage. The aim is to trace quantitatively, from corporate financial records, the long term changes in business financing needs, particularly needs for short term capital, and to examine closely recent changes in the institutional facilities that serve the short term credit needs of business, and to compare the different facilities and methods of short term financing available to business firms of different size and industrial types.

The data are drawn from many sources. Here again the Bureau has been able to secure the cooperation of many agencies which never before had pooled the

information at their disposal in a study of this kind. Among the sources from which information is being gathered are the financial manuals, special tabulations of corporate income tax data prepared by the Treasury W P A Income Tax project, special compilations of financial statements by the Robert Morris Associates, credit files of banks, corporate tax return files of Massachusetts and Wisconsin and industrial loan application files of the Federal Reserve Banks of New York and Philadelphia.

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The three studies which I have described, in which Professor Riefler has taken a leading part and to which Professors Stewart and Warren have also contributed, will, when completed, make available to economists new primary materials in three major areas of finance: consumer instalment credit, commercial credit, and investment credit. The data collected will provide a sounder basis than has been available hitherto for analytical and theoretical studies of problems in finance. The work of the National Bureau has furthermore made great progress in the development of rigorous technique for research in the field, has achieved unprecedented success in securing the cooperation of Government and private agencies in scholarly work, and has been the means of training an important group of young economists from all over the country in the methods of cooperative research.

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It is inevitable that the work now in progress will show the need of similar exact and comprehensive data in other fields of economics. It has already set the minds of the members of our own department working on the need for similarly careful study of economic history. Under the leadership of Professors Stewart and Warren and Dr. Willits plans for work in this subject are already under discussion. The maturing of these plans will constitute one of the most important activities of our economics group during the next two or three years.

Contemporary and historical data will in turn call for interpretation

An ideal statement of aim
of Miller's American sch. which
want to develop replicable
data for inductive process of
theory. The quantitative - raw
material for study.

WWS height study soc sc
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or
Did height predict next? All
kitchen + came to naught?
Or replicable - but inflated?

and it may be expected that the studies now under way and projected, concerning the facts of economic activity in the present and the past, will call for important revisions of economic theory. Indeed this process has already begun. Thus the work which is now being done will expand to wider and wider circles of scholarly endeavor, and it appears extremely likely that the vitality of our School of Economics will eventually demand additions to our staff to deal adequately with the new vistas of knowledge opened up by the data now being so patiently and laboriously compiled.

VI

For some time Professor Stewart has interested himself in the teaching of the social sciences in American colleges and universities. He has concerned himself with the organization of the subject into departments and courses, the character and quality of the textbooks used, and the preparation and background of instructors. One value of this study should be to enable the Institute to organize its activities in such a way as to be of maximum value to higher education. In order to reach sound conclusions Professor Stewart finds that it is not enough to study the work of colleges and universities but that it is also necessary to consider the teaching of the social sciences in secondary schools. A survey of this field is now being undertaken. President Leigh of Bennington College has secured leave of absence for one semester to become a member of the Institute and to do the field work involved. Dr. Leigh will visit a selected list of schools throughout the country and prepare a report on the work now being done in the social sciences. The report may or may not be published. Its purpose is to furnish Professor Stewart with the background information which he needs in order to estimate accurately the undergraduate teaching of economics and political science. I believe such studies of elementary work in subjects which are being pursued on an advanced level to have great potential value, and to indicate another way in which the Institute can render valuable service to our entire educational system.

VII

The work which Professor Earle is doing touches both history and political science and is closely linked to the political and military problems confronting the United States in the present emergency. ¹⁹³⁶ Five years ago Professor Earle began to turn his attention to military policy as a much neglected phase of political science. He has in various articles urged upon historians and political scientists the importance of coördinating the study of military and naval problems with the study of foreign policy and international relations. It so happens that Princeton University has in Professors Stacey and Sprout two men whose interests run very much in the same direction. In coöperation with these two men and a group of younger scholars who have come to the Institute, mostly on fellowships granted by the Rockefeller Foundation and the Carnegie Corporation, Professor Earle has conducted for two years a seminar on the foreign and military policies of the United States. From this seminar has issued already a noteworthy list of books and articles, which are creditable in themselves, and which have attracted additional interest because of the troubled international situation, the difficult problems in foreign policy confronting the country, and the threat to our security.

Earle
Stacey

The topics which have been discussed in the seminar and which have been elucidated by publications of the members include the American dogma of isolation, its origins and its applicability to the present-day world situation, the diplomatic history of the United States, the problems of foreign policy confronting the country at the present time, various problems of international law, and the study of war as a social phenomenon.

Leaving aside the imminent dangers of the moment, it is obvious that the greatest political and social problem confronting this and every other country is the need for some kind of international organization, like the League of Nations but more effective, which will rid the world of the danger of such calamities as the wars which have ravaged it twice within this generation. To accomplish this pacifism, friendship, and good will are not enough. To attribute wars to the

baleful activities of munition makers or international bankers or diplomats entrusted with too much power, or to the excesses of economic nationalism, is to ignore the political realities of the world situation. War is the product of international anarchy, and this anarchy is the inevitable result of the doctrine of unlimited national sovereignty. Until the nations of the world can combine into some kind of super state, sacrificing some part of their national sovereignty and delegating to this supra-national organization the power to enforce peace and to settle international controversies by political and judicial processes, the world will continue to live in danger of war; and if the formation of the international organization is too long delayed, the resulting conflicts bid fair to bankrupt the states concerned, lower the standards of living of the masses of the people, and destroy the material and moral foundations of our civilization.

These considerations have enlisted the active interest of historians, political scientists, and educational foundations throughout the country. During the last two years a number of voluntary groups have been organized to study the problem. Feeling the importance of coordinating these efforts, the Rockefeller Foundation called a conference eighteen months ago of leading members of various groups out of which sprang a coordinating committee, now called the American Committee for International Studies. Professor Earle is Chairman of this Committee and its research director. The headquarters of the Committee are here at the Institute, its modest budget is met by an appropriation from the Rockefeller Foundation and the routine administrative work of the Committee is performed by Mr. W. W. Lockwood, its Secretary.

The Committee is a clearing and planning body, designed to aid and stimulate inquiries focussed upon American interests, opportunities, and obligations in the war and the postwar world. It is a purely research organization, with no responsibility for administering funds or conducting propaganda. Its aim is to discover and encourage promising scholars in this field, advise them in their

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studies, and keep them informed of the work being done by others, in the hope that by this means useful contributions may be made toward the solution of the problems which will confront this and other countries at the end of the war.

The Committee is the American member of the International Studies Conference and acts as the sub-Committee of the Social Science Research Council for the study of international relations. It is engaged in a survey of research in progress and in directing scholars to the study of problems not covered in any existing program. It occupies itself with such subjects as military history and military problems, the character of totalitarian governments, both in their domestic aspects and in their relations with other countries. It assists in building up a collection of war documents in the Library of Congress and has initiated studies of American interests in such regions as Latin America and the Far East. The central issue of public policy with which it is concerned is the reconstruction of a more secure and prosperous world order. Its aim is to facilitate the work of American scholars in stating, if not solving, the problems which must be solved if such world order is to be achieved.

VIII

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at the time. I am trying to give
an idea of picture as to how
it was on going in down with
the Hall Bureau.

We had had a splendid holiday
for some time in quiet work &
very - just wonderfully, better for
it. Weather a little cooler than
one expects in Florida.

pp
Doris Appleton

HIGHLAND PARK FLORIDA CLUB
LAKE WALES, FLORIDA

Accepted
Incl. for acct.
20 Jan 1940
1941?

Dear Stewart:

See my report to the Board
in Jan & am describing in some
detail the work in Economics &
Politics. I am asking people to
read it ^{in advance} & should
be grateful if you & women
would also look at it. I should
like to have
let them had more material
^{about women's}
about women's work but to do
we feel ready to have see say more

REPORT OF THE DIRECTOR

January 27, 1941

I

Mr. Bamberger has suggested that I should discuss with the Trustees from time to time the developing program of the Institute, as it takes shape in my own mind. I am enthusiastic over the wisdom and skill with which Dr. Flexner has laid the foundations of an educational institution of a type new in this country. Upon those foundations it is now our duty and our opportunity to build. We should do this slowly according to a carefully thought-out plan, which should embody all the wisdom and experience which can be assembled from discussions with our own faculty, the members of our Board of Trustees, and with scholars everywhere who have the insight and imagination to see the contribution which such an institution as this can make to education and scholarship in this country and in the world outside.

It is impossible for us to foresee the future, but we may be sure that, whatever course world events may take, the next decade will make great demands upon us and will present problems which will tax all our wisdom and all our resources. Our task will be not to rival other institutions in doing work which they are already performing satisfactorily but rather to strike out into new paths and to devise for ourselves new ways in which we can serve education and scholarship by methods which universities organized in the conventional manner are not free to adopt. These new paths are not entirely uncharted. There are many institutions from which we can learn much and none perhaps from which we cannot learn something. But we shall fall short of the ideal which Dr. Flexner and the Trustees have adopted for the Institute during the last ten years if we do not make it a unique place, offering a contribution which is made by no other institution of learning at the present time.

The experience of the members who have come here to work makes it clear that the need for instruction does not end with the Ph.D. degree, that hundreds of young scholars, endowed with brains and ambition, flounder in their efforts to widen and deepen their own scholarship and to advance the frontiers of knowledge, for lack of the stimulus and guidance which they might receive from leaders in their fields of knowledge in a place like this. The problem of catering to their needs is difficult and fascinating. It cannot be met by routine methods or by mediocre minds. The difficulty of the problem is only matched by its importance. In so far as we are able to solve it, we shall contribute to the advancement of knowledge and to the strengthening of scholarship not merely in Princeton but in all our centers of learning from the Atlantic to the Pacific and in other countries beyond the seas.

In order to lay the problem of our future development before the Trustees I propose to begin, in this and the two or three meetings to follow, by a discussion of the work now going on at the Institute. The methods pursued here at present are as varied as the members of our faculty. This is as it should be in an institution which has no choice but to be experimental. It is only, it seems to me, by understanding the work now in progress that the Trustees can form any clear idea of the direction which growth should take in the future and form any estimate of the possibilities open to an institution of this character.

I shall begin today with the School of Economics and Politics, the work of which is closely bound up with research organizations outside the Institute: the National Bureau of Economic Research, with which Professors Riefler, Stewart, and Warren are all connected, and the American Committee for International Studies, of which Professor Earle is Chairman. Of Professor Mitran's work I shall say nothing today. He is on his second year of leave, working with the Chatham House group at Oxford for the English Foreign Office, on confidential tasks concerning which he is not at liberty at present

to make any detailed report. It should be a matter of satisfaction to the Institute to be able, by its loan of Professor Mitrany's services, to make a contribution to the English war effort.

II

The National Bureau of Economic Research, into which the members of our economics group are putting so much effort at present, was organized in 1920 by a group of leading American economists of which Dr. Joseph H. Willits, then Dean of the Wharton School of the University of Pennsylvania, now in charge of the Division of the Social Sciences of the Rockefeller Foundation, was a member. Dr. Wesley Mitchell of Columbia University is Chairman of the Bureau, and the various Boards and Committees include a large number of the most forward-looking economists from universities, from departments of the Government, from research foundations, and from great banks and business corporations. The work of the National Bureau is an attempt to codify and arrange the vast and complex data of modern economic activity as a basis for a truer understanding of the forces which control economic phenomena in the modern world. It is undertaking to assemble and put into order the facts upon which any science of economics, valid for the present day, must be based. Such a task would be impossible for any man or group of men working as individuals. The only feasible method for performing it is by coöperative research in which a large number of individuals and groups combine their efforts. The need for coöperative research on the ambitious scale on which it is being attempted by the Bureau is widely felt and the work has been generously supported not merely by universities and foundations but also by the Government and by associations of bank and business corporations.

In 1937 the National Bureau approved the suggestion, made to its Exploratory Committee by the association of Reserve City Bankers, for the initiation of an extensive program for research in finance, looking to a better understanding

of the problems facing the country in the capital market and in banking.

Professor Riefler is Chairman of the Committee on Research in Finance as well as of the Central Administrative and Research Staff. Professor Warren is a member of the Committee on Research, and Professors Stewart, Riefler, and Warren, along with Mr. Douglas of our Board of Trustees, are all members of the advisory conference on financial research.

During the last two and one half years the Committee, under Professor Riefler's leadership, has undertaken three important projects:

1. A comprehensive study of instalment credit
2. The Corporate Bond project
3. The financial structure project

The study of instalment credit, now nearing completion, has included such topics as personal finance and sales finance companies and their credit practices, the part played by commercial and industrial banking companies and by Government agencies in their business, the pattern and volume of consumer debt, the element of risk, the operating experience of consumer instalment financing agencies, the legal regulations governing consumer financing companies, and the relation of consumer instalment credit to economic fluctuations.

Seven of the twelve projected monographs are already in print; two more are in manuscript form, and the remaining three are in course of preparation. Taken together they present economists, government officials, and business men with the first authoritative account of the volume of instalment credit in this country, the methods by which finance companies function, and the reasons why law, psychology, and prejudice have given this business to specialized agencies rather than to standard banks. We have a careful, quantitative estimate of the volume of instalment finance, the extent to which this credit is used by different income classes and occupational groups, the factors affecting risk, the effect of instalment credit on consumer purchasing power, the effect of economic

fluctuations on instalment buying, and the reciprocal effects of instalment credit on business cycles.

The whole constitutes a study of far-reaching importance of a new economic phenomenon. The study has produced as by-products a new record in coöperation of Government agencies and private corporations in scholarly research and has as well opened up a whole range of new problems for investigation.

The work of the National Bureau in this and other studies has had another result of importance in the training of younger men in the techniques of coöperative research. This result came about almost by inadvertence. It was the first intention to have the study conducted by senior economists on leave of absence from their universities, but for various reasons this did not prove to be feasible. Older professors were often too busy, too much preoccupied with their own problems, and, in many cases, not sufficiently up-to-date and not sufficiently patient and flexible to adapt themselves to a new method of work. Able younger men, not more than four or five years beyond the Ph.D. -- men of the type whom we welcome here as members of the Institute -- proved better.

This might have been expected, but was not. It is on the whole a most fortunate development. It means that the members of our School of Economics, working at the projects of the National Bureau, are at the same time carrying out in New York one of the fundamental purposes of the Institute in taking capable young men from their positions in the various colleges and universities, training them in up-to-date methods of economic research, and then sending them back prepared to continue such research and revitalize the study of the subject in their own institutions.

The National Bureau is a rigorous training school in coöperative methods. Young men are not asked what they would like to do. They are appointed to perform definite tasks, closely related to a work which other men are doing, to be rigorously checked as parts of a complete whole. Even though they have

won their spurs in scholarship, they enter this organization as apprentices with much to learn, and they must work not as free individuals but as members of a team. The training they receive in return is the breadth which comes from participation in tasks beyond the power of any single man to perform.

It seems to me that the Institute may be able to do more than that for the best of these young recruits. One of them, Mr. David Durand, who has made his contribution to the work in New York, written his study and had it approved, has now been brought to Princeton for a year of quiet study and reflection, and it seems probable that this procedure will be followed in the case of others in order to enable them to get the most out of their experience. The work of our professors at the National Bureau is thus not merely advancing the frontiers of knowledge but is also training men.

III

The second of the projects of the National Bureau in financial research is the Corporate Bond study. It is designed to carry out the request of the Exploratory Committee for work which would throw light on the standards of investment credit. I think I may say that this is Professor Riefler's pet project. In addition to being Chairman of the Committee on Research in Finance he is also acting as Chairman of the Administrative Committee of the Corporate Bond project and has taken the lead in the organization and direction of the work of the large staff needed for so ambitious an undertaking.

The Bond project is a quantitative study of the experience and behavior of domestic corporate bonds and the terms of corporate bond financing in the U. S. A. from 1900 to 1940. It covers all corporate bonds issued in this country during that period, records the facts about their behavior, interest rates, loss experience, etc., analyzed according to industries, quality, and maturities. It aims to present an exact record of the use of the capital market by business corporations, the types of bonds issued, their terms and purpose, the cost of

borrowing to industries and the net rate of return to investors. It will show the relative merits of agency ratings, market prices, and legal lists as indices of bond quality. It will check accurately the fluctuation of long term interest rates and their relation to capital market activity.

The cost of compiling the data over a period of forty years on issues of bonds with a total market value of \$..... at first appeared staggering. Nothing like it had ever been done; the task exceeded the resources of any research organization, and it might have proved impossible for the National Bureau had not Chairman Crowley of the Federal Deposit Insurance Corporation suggested that the clerical work involved be made a W P A white-collar relief project, with the National Bureau providing the technical supervision. This was arranged, and a staff of about two hundred clerical workers, costing for the duration of the study about \$300,000, was provided by the W P A. Substantial contributions of funds for supervision and theoretical work were made by the Rockefeller Foundation, the Association of Reserve City Bankers, Moody's Investment Service, and other agencies. In addition, many private corporations and Government Departments have furnished data and technical advice costing in the aggregate a large sum of money. The list of private and public bodies participating in the study includes the office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the Interstate Commerce Commission, the Banking Department of the State of New York, the Federal Reserve Bank of New York, the Central Statistical Board, and the four private financial advisory services: Fitch's Investors' Service, Moody's, Poor's Publishing Company, and the Standard Statistics Company.

The project is essentially a tabulation of data on all corporate bonds issued over a period of forty years, of formidable extent and completeness.

It includes

1. Data on the volume of corporate bond offerings by year, industry, size of issue, coupon rate, maturities, and types of issue
2. Data on market prices of bonds, yields at offering and yields realized, ratings, earnings of obligors, legal status at times of issue and extinguishment
3. Data on number and extent of defaults, analyzed by industries, types of default and settlement, and realized yields on defaulted bonds
4. Annual data on prices, yields and ratings for a selected sample of bonds
5. Monthly price and yield data for a small group of high-grade and low-grade bonds

The data when completed will be made available to all cooperating agencies for such theoretical studies as they may wish to make. Personally I hope that means may be found by photostat or microfilm to make these tabulations available at moderate cost to university libraries and departments of economics wherever they may be desired. Tabulations so carefully made and so complete will serve as bases for a large range of theoretical studies for a long time to come. The period covered includes the halcyon days before the war of 1914-1918, the war period itself, the boom of the twenties and the depression of the thirties. Among the topics listed in the National Bureau report as suitable for study from these data are: the cyclical behavior of investment values and long term interest rates; the role of risk in market interest rates; the efficiency of various criteria of future investment performance, such as market price, legal listing, agency ratings and corporate earnings; the value, for investment safety, of sinking funds, and of type and seniority of security; the characteristics of bond defaults and the problems which confront investors when default occurs; and the effects of market fluctuations on investment experience. Beyond these, the data will doubtless be used by scholars and financial experts in many ways which cannot now be foreseen.

IV

The third study undertaken by the National Bureau under the direction of Professor Riefler's Committee on Research in Finance is the so-called financial structure project. In a certain sense all three studies are parts of a comprehensive survey of the financial structure of the U.S.A. in the twentieth century. The third project limits itself to a survey of contemporary relations between bank and business. It undertakes to give a quantitative picture of the changing financial requirements of American business, the trends in commercial borrowing, the future of commercial loans, the demand for short term capital as affected by the cash balances and security investments of large business corporations, which often make them net creditors instead of being net debtors, the growing habit of financing capital requirements internally out of undistributed earnings and depreciation allowances rather than by borrowing or issuing stock. The study should afford an indication as to whether these devices represent a permanent change in the method of financing business operations or whether they are merely transitory phenomena.

The study includes three parts:

1. Trends in the financial structure of American business, 1900-1940
2. The sources and uses of business funds, 1920-1940
3. Contemporary relations between banks and business

Work was begun just a year ago and is still to some extent in the preliminary stage. The aim is to trace quantitatively, from corporate financial records, the long term changes in business financing needs, particularly needs for short term capital, and to examine closely recent changes in the institutional facilities that serve the short term credit needs of business, and to compare the different facilities and methods of short term financing available to business firms of different size and industrial types.

The data are drawn from many sources. Here again the Bureau has been able to secure the cooperation of many agencies which never before had pooled the

information at their disposal in a study of this kind. Among the sources from which information is being gathered are the financial manuals, special tabulations of corporate income tax data prepared by the Treasury W P A Income Tax project, special compilations of financial statements by the Robert Morris Associates, credit files of banks, corporate tax return files of Massachusetts and Wisconsin and industrial loan application files of the Federal Reserve Banks of New York and Philadelphia.

V

The three studies which I have described, in which Professor Riefler has taken a leading part and to which Professors Stewart and Warren have also contributed, will, when completed, make available to economists new primary materials in three major areas of finance: consumer instalment credit, commercial credit, and investment credit. The data collected will provide a sounder basis than has been available hitherto for analytical and theoretical studies of problems in finance. The work of the National Bureau has furthermore made great progress in the development of rigorous technique for research in the field, has achieved unprecedented success in securing the cooperation of Government and private agencies in scholarly work, and has been the means of training an important group of young economists from all over the country in the methods of cooperative research.

It is inevitable that the work now in progress will show the need of similar exact and comprehensive data in other fields of economics. It has already set the minds of the members of our own department working on the need for similarly careful study of economic history. Under the leadership of Professors Stewart and Warren and Dr. Willits plans for work in this subject are already under discussion. The maturing of these plans will constitute one of the most important activities of our economics group during the next two or three years.

Contemporary and historical data will in turn call for interpretation

and it may be expected that the studies now under way and projected, concerning the facts of economic activity in the present and the past, will call for important revisions of economic theory. Indeed this process has already begun. Thus the work which is now being done will expand to wider and wider circles of scholarly endeavor, and it appears extremely likely that the vitality of our School of Economics will eventually demand additions to our staff to deal adequately with the new vistas of knowledge opened up by the data now being so patiently and laboriously compiled.

VI

For some time Professor Stewart has interested himself in the teaching of the social sciences in American colleges and universities. He has concerned himself with the organization of the subject into departments and courses, the character and quality of the textbooks used, and the preparation and background of instructors. One value of this study should be to enable the Institute to organize its activities in such a way as to be of maximum value to higher education. In order to reach sound conclusions Professor Stewart finds that it is not enough to study the work of colleges and universities but that it is also necessary to consider the teaching of the social sciences in secondary schools. A survey of this field is now being undertaken. President Leigh of Bennington College has secured leave of absence for one semester to become a member of the Institute and to do the field work involved. Dr. Leigh will visit a selected list of schools throughout the country and prepare a report on the work now being done in the social sciences. The report may or may not be published. Its purpose is to furnish Professor Stewart with the background information which he needs in order to estimate accurately the undergraduate teaching of economics and political science. I believe such studies of elementary work in subjects which are being pursued on an advanced level to have great potential value, and to indicate another way in which the Institute can render valuable service to our entire educational system.

VII

The work which Professor Earle is doing touches both history and political science and is closely linked to the political and military problems confronting the United States in the present emergency. Five years ago Professor Earle began to turn his attention to military policy as a much neglected phase of political science. He has in various articles urged upon historians and political scientists the importance of coördinating the study of military and naval problems with the study of foreign policy and international relations. It so happens that Princeton University has in Professors Stacey and Sprout two men whose interests run very much in the same direction. In coöperation with these two men and a group of younger scholars who have come to the Institute, mostly on fellowships granted by the Rockefeller Foundation and the Carnegie Corporation, Professor Earle has conducted for two years a seminar on the foreign and military policies of the United States. From this seminar has issued already a noteworthy list of books and articles, which are creditable in themselves, and which have attracted additional interest because of the troubled international situation, the difficult problems in foreign policy confronting the country, and the threat to our security.

The topics which have been discussed in the seminar and which have been elucidated by publications of the members include the American dogma of isolation, its origins and its applicability to the present-day world situation, the diplomatic history of the United States, the problems of foreign policy confronting the country at the present time, various problems of international law, and the study of war as a social phenomenon.

Leaving aside the imminent dangers of the moment, it is obvious that the greatest political and social problem confronting this and every other country is the need for some kind of international organization, like the League of Nations but more effective, which will rid the world of the danger of such calamities as the wars which have ravaged it twice within this generation. To accomplish this pacifism, friendship, and good will are not enough. To attribute wars to the

baleful activities of munition makers or international bankers or diplomats entrusted with too much power, or to the excesses of economic nationalism, is to ignore the political realities of the world situation. War is the product of international anarchy, and this anarchy is the inevitable result of the doctrine of unlimited national sovereignty. Until the nations of the world can combine into some kind of super state, sacrificing some part of their national sovereignty and delegating to this supra-national organization the power to enforce peace and to settle international controversies by political and judicial processes, the world will continue to live in danger of war; and if the formation of the international organization is too long delayed, the resulting conflicts bid fair to bankrupt the states concerned, lower the standards of living of the masses of the people, and destroy the material and moral foundations of our civilization.

These considerations have enlisted the active interest of historians, political scientists, and educational foundations throughout the country. During the last two years a number of voluntary groups have been organized to study the problem. Feeling the importance of coördinating these efforts, the Rockefeller Foundation called a conference eighteen months ago of leading members of various groups out of which sprang a coördinating committee, now called the American Committee for International Studies. Professor Earle is Chairman of this Committee and its research director. The headquarters of the Committee are here at the Institute, its modest budget is met by an appropriation from the Rockefeller Foundation and the routine administrative work of the Committee is performed by Mr. W. W. Lockwood, its Secretary.

The Committee is a clearing and planning body, designed to aid and stimulate inquiries focussed upon American interests, opportunities, and obligations in the war and the postwar world. It is a purely research organization, with no responsibility for administering funds or conducting propaganda. Its aim is to discover and encourage promising scholars in this field, advise them in their

studies, and keep them informed of the work being done by others, in the hope that by this means useful contributions may be made toward the solution of the problems which will confront this and other countries at the end of the war.

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SEP

INSTITUTE FOR ADVANCED STUDY

Extract from the Report of Dr. Frank Aydelotte, Director
to the Trustees- Feb.24,1941

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Extract from the Report of Dr. Frank Aydelotte, Director
to the Trustees - June 8,1943

The League of Nations group has, during the three years it has been working in Fuld Hall, steadily increased the number and importance of its publications. Lists of these publications are contained in all the handbooks and need not be repeated in this report. From the point of view of economic research the most important of all the productions of the League group during the past three years is a report of the Delegation on Economic Depressions, The Transition from War to Peace Economy. This study, based upon statistical information covering the period at the end of the last war, deals with the effects of

war economy on industrial activity and the problems arising during the transition from war to peace economy both in the domestic and the international fields. A copy of this interesting and important document is being sent to each member of the Board with the compliments of Mr. Loveday. On the fly leaves of the pamphlet will be found lists of recent publications of the Economics Section of the League. The presence of the League group in Fuld Hall has been a great stimulus to the work of the Institute in the field of international economics and constitutes a delightful addition to our intellectual and human resources.

Extract from the Report of Dr. Frank Aydelotte, Director
to the Trustees - May 23, 1946

The Institute may pride itself on the hospitality which it has shown to the members of the Economic Section of the League of Nations. We brought this group to Princeton in 1940 in order if possible to hold them together and to pass them on to whatever organization might succeed the League. The technique, the intellectual know-how, of the Economic group is very important. If this group had been allowed to disintegrate, it would have taken the United Nations ten years to form an organization of equal efficiency. Thanks to our invitation, the group has been kept together, they have continued their work, and they are to be taken over intact by the United Nations Organization in the summer of this year. I attach as an appendix to this report a letter of thanks from Mr. Sean Lester, Secretary-General of the League, for our hospitality, and I suggest a vote of thanks to the Theological Seminary for their assistance to us in housing the members of the Economic Section.