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Reflections on the Origins of the European Finance Association

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On the 25th anniversary of the European Finance Association it seems not only appropriate, but in fact, compelling, to turn some oral history into a written record of the start of the Association.

In 1972 and 1973 we were each Senior Research Fellows at the International Institute of Management (I.I.M.) in Berlin. This afforded us the opportunity to hold a series of three international finance meetings in Travemunde, Garmesh Parkenkershen and Berlin, each funded by I.I.M. These meetings were the forerunners of the European Finance Association. At the third of these meetings, a discussion was held on how to continue what we had started when we went back to NYU. Bruno Solnick agreed to host the next meeting in Paris, and this was the official start of the European Finance Association. Many of the participants in our early meetings are still active in the profession and in the European Finance Association. Among them we remember (and please forgive us if we miss anybody) were Ed Altman, Dick Brealey, Wolfgang Buhler, Elroy Dimpson, Gary Eppen, Julian Franks, Anthony Hopwood, Bertram Jacquillat, Peter Jennergren, Paul Korswald, Lambert Vanthienen, Merton Miller, Jan Mossin, Manfred Padberg, Dick Roll, Marshall Samat, Steve Schaeffer, Bruno Solnick, Dick Stapleton, Peter Swoboda and Cees Van Dam.

To the best of our knowledge, these were the first international financial research conferences held in Europe. The research was interesting and important, and the participants worked hard and had a good time. We thought we would take this occasion to recall some stories from each of the meetings.

The first pre-meeting was in Travemunde in December 1971. It was jointly sponsored by EIASM and I.I.M. The groatest difficulty was finding out who was doing finance in Europe. Almost no one knew each other. We would call someone for suggestions and have that person only know the person who had originally suggested him in the first place. Two of the sessions were OR in Finance, mainly planning models. These were included to get enough good papers. All of us were in our 20's or early 30's. There was almost no senior group. It was up to us to define what was important, and this lent a tremendous air of excitement. We decided that getting acquainted should be a major goal. We instructed the hotel that all facilities were to be open 24 hours a day and that the bar was always open. This led to 3 a.m. water polo games. The open bar had one unintended consequence. The second day of the conference all of us decided we would have a serious tasting of German beers. After three beers we could all speak German fluently, and Ein Grosse beer was spoken with hardly an accent. Late the second night we decided to break the casino at Travenmunde. Befitting our financial status, all of us chipped in 20 DM to a common pot. Dick Stapleton and Marshall Samat assured us that they were professionals at the roulette table and that our fortune was assured. The rest of us promised to root hard. The only problem was that our rooting was not as appreciated by the casino manager as it was by our colleagues. As the original members of the European Financial Association were being led to the door by a group of well-fed employees of the casino, my escort said, "Money is serious business, it is not to be made fun of". Obviously the bouncers were all potential finance students.

The paper we remember best from the first pre-meeting was by Jennergren and Korsvald. Their paper was a test of trading rules for Swedish stocks. Their conclusion was that given taxes and transaction costs, even though there was substantial autocorrelation in security returns, the only one who could make money was the Queen. There have to be some benefits to royalty.

The second meeting was in Garmesh, Parkenkershen. Once again IIM provided us with a generous budget covering all meeting and meal expenses. We splurged on the opening feast, which included roast suckling pig and some of the finest German wines. Having renewed acquaintances, we all headed out of the dining room. Waiting for us were fifteen of Garmesh Parkinkershen's finest professional maidens, who had obviously heard there was a convention in town. They demonstrated a remarkable ability to estimate cash flows and present values, since five seconds after they met the group, they all left.

Our favorite paper from that meeting was one by Peter Swoboda. In Austria at that time, companies could delay announcing annual reports for up to two years. As one might expect, delays were excellent predictors of whether there was bad news in the annual report.

The last of the three meetings we ran was held in Berlin. We remember a paper given on the efficiency of the Austrian stock market. We learned that the market was made up of 30 stocks and that almost the entire amount of each stock was owned by two Austrian banks. Each day the two banks would trade a share of each company. The market was one person entering the transaction by pen in a ledger book. Part of the valuation of the banks was the market value of the shares they owned. The banks were valued about once a year, and through one bank trading with the other bank, the market value of the share they owned would double on the day before the valuation.

The author took this price data and ran all the standard weak form efficient market tests. The tests showed the market was efficient. This led to general laughter from the audience, Merton Miller stood up and said, "Why shouldn't the market be perfectly efficient?".

The second incident we remember from Berlin is visual in nature and marked the last moments of our final meeting. The meeting ran late. The group from England, which included Dick Brealey, Steve Shaefer, Julian Franks and several others, all piled into a taxi trying to make their plane home. The cab was so full that in leaving the courtyard of the building the undercarrige got hung up and ripped the exhaust system out of the cab. Dick and the others leapt out of the cab, ran to the street, and hopped into another cab, and drove into the sunset, leaving the cab driver sputtering and with a non-working vehicle.

Of more importance, they and the rest of the participants in those early meetings left the European Finance Association as a working vehicle, a vehicle that has continued to prosper and grow over the last 25 years.

While these few pages are meant to chronicle the pre-history of the European Finance Association, we wanted to close with a statement about how important the European Finance Association has been to us. Over its 25-year history we have presented 18 papers at the European Finance Association which were subsequently published. We benefitted from comments on these papers. Even more, we benefitted from the friendships we have formed with many of the members of the European Finance Association over the years.