

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 22, 1949

To Governor Eccles

Subject: Assistance by Federal Reserve

From Woodlief Thomas

Banks to outside research projects

Mr. Morrill has informed me that you wish a statement on the nature of the research projects which have been supported by contributions from Federal Reserve Banks.

So far as we know the only specific fund set up for the purpose of making grants to finance outside research is that established by the Federal Reserve Bank of Boston. This item was first proposed in connection with a revised budget submitted by the Boston Bank on May 20, 1946, and was discussed in my memorandum to the Board of June 11, 1946. The revised budget was approved by the Board on June 13, 1946, as indicated in the following quotation from the Board's letter to President Whittemore:

"It is noted that of this amount a sum not in excess of an annual rate of \$13,000 may be expended by the President of the Bank as he in his judgment may deem necessary for the purpose of procuring cooperative research in regional economics in the First Federal Reserve District through facilities outside of the Bank."

The amount provided for this purpose has been changed in subsequent budgets and this has been specifically pointed out in each budget submission. The amount set up for 1949 was approximately \$16,000. The Board did not require and does not receive any formal report on the purposes for which grants are made out of this fund. From collateral information we know that last year at least a portion of the fund was used to finance the study of the effect of the basing point decision on New England industry, which was conducted by a member of the faculty of Harvard Business School, and that previously funds had been allotted for the study of the balance of payments position of the First Federal Reserve District. Two other specific uses reported by the Board's examiners are given in the attached memorandum.

The Federal Reserve Bank of Atlanta included in its budget for the first time this year an item of \$25,000 under the Bank and Public Relations Function with the statement that it was to be used for "public relations activities and research". The Board has withheld approval of this item pending receipt of information as to uses for which these funds are contemplated. The basing point study, which was proposed by the Atlanta Bank, was never approved by the Board and we understand has been abandoned by the Bank.

It also appears that the Federal Reserve Bank of St. Louis has approximately \$2,000 set up under the "All Other" category in its budget for the research and statistical function which it regards as available for financial contribution as well as "in kind" assistance to outside research groups. So far as we know, however, these moneys have not been used for direct financial contributions up to the present time but have been used to finance "in kind" assistance only, such as the loan of Mr. Stead's services to the Council of Economic Advisers, which was approved by the Board.

The amounts set up under "All Other" in New York, Cleveland, and Richmond are also sufficiently large to permit some possible contributions to research projects, but we have no information that such contributions are in fact being made. Richmond recently helped to support a special study of the financial position of farmers in Virginia conducted by the Virginia State Bankers Association, but they regarded this as purely a Bank and Public Relations activity. In the case of all other Banks the amounts classified as "All Other" are so small that it is extremely unlikely that any contributions could be made without a request to the Board for an increase in the budget.

In summary, Boston is the only Reserve Bank that has any formal budgetary provision for outside research. The Board has not requested, and does not receive, any formal report on the purposes for which funds budgeted for this purpose at Boston or in the "All Other" category under the Research and Statistical Function at other Banks are expended. Any large change in a budgeted item at any Bank would ordinarily be explained by the Bank in submitting its budget.

M. J.