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WORK OF THE DIVISION OF RESEARCH AND STATISTICS

I have been going over the work of this Division in connection with problems raised by the new legislation and the larger and more direct responsibilities placed on the Board for the direction of monetary and credit policies.

Work of the Division

In general the work of the Division may be divided into current functions and longer-time research projects. In recent years there has been little time for such projects, but work of this nature is essential for the purpose of increasing understanding of changing economic conditions and their bearing on credit policies.

The major current work of the Division consists of the assembling and preparation of the basic material on business and credit conditions, of its interpretation for the use of the Board and the System, and of the editing and publication of the Federal Reserve Bulletin and the Board's annual reports. A considerable part of the Division's time is taken up by answering inquiries from members of the Board, from other departments of the Government, and from the general public. Supervision over the statistical activities of the Federal Reserve banks is another major function of the Division. Constant work is necessary in improving the basic statistical data bearing both on business and on banking and in revisions of the index numbers originally compiled in the Division, in order to maintain their accuracy and representativeness under changing

economic conditions. The most important single index is that of industrial production. This index is now undergoing thorough revision in order to bring it up to date.

Another phase of the Division's work is participation by members of the senior staff in the work of governmental committees and agencies, such as, for example, the Central Statistical Board and committees set up under its auspices. Preparation of a W.P.A. white collar project for the study of bank deposits has absorbed a considerable part of the time of one of the Assistant Directors of the Division and his associates, and supervision of that project when it gets under way will require additional time of the Division.

Organization chart

For the purpose of giving a quick picture of the functions of the Division, I have had made an organization chart that shows the principal sub-divisions of our work. It includes an enumeration in general terms of the subjects handled by each group in the Division and the names of persons who comprise each group.

For administrative reasons, it is proposed in the chart to group the professional workers other than the Director and the Assistant Directors under the designations: senior economists, junior economists, and economic assistants. These titles have not been used heretofore, but they are helpful in indicating the lines of responsibility and the status of the different members of the staff. It is particularly useful to introduce the title economic assistant, because it provides an avenue of promotion for persons

on the clerical staff who have adequate training and who have shown capacity for original work, but may have been originally employed as clerks on account of lack of experience.

I have available a card for each person employed in this Division indicating age, training and experience at the time of employment by the Board, initial salary, present salary, and character of duties. This is for reference purposes in connection with any discussion of the work and status of any individual in the Division.

Origin of work

Statistical and economic work has been carried on in the Federal Reserve Board since its organization. Originally it was centered in the Division known as the Division of Reports and Statistics. Later, in 1918, the Division of Analysis and Research was established in New York under Dr. Willis. In 1922 this Division was transferred to Washington. The Division of Reports and Statistics had by that time been divided into the Division of Bank Operations and the Office of the Statistician. In 1924 the latter office was consolidated with the Division of Analysis and Research under the present title of Division of Research and Statistics.

Objectives

The general purposes of the statistical work of the Division and of similar divisions in the different Reserve banks was first formulated clearly in a circular letter issued by the Federal Reserve Board on October 31, 1924. It is stated in this letter that "the purpose of the work of the research and statistical divisions of the Federal Reserve banks and the Board is to collect and digest information bearing on the problems with

which the Federal Reserve System is concerned, either as a matter of current operation or as basis of Federal Reserve policies." It is along the lines of this statement of purposes that the Division has developed in the past ten or twelve years.

It is desirable at this time that the Division's duties and responsibilities be defined in more detail. A draft of such a possible instruction from the Board to the Division, reflecting the experience of the past ten or twelve years and the new responsibilities arising from recent legislation, is attached.

Material collected

A survey of the character of the material that the Division collects and has currently available has been made and a detailed enumeration of the nature of this material is also attached to this report.

At first glance it looks like an immense amount of figures and the question naturally arises whether some of them could not be eliminated. Careful study, however, shows that all of these figures are necessary in order to enter into the computation of the basic indexes that the Board uses or for the purpose of making it possible to reply to a variety of inquiries that come to the Division from the Board, the banks, the other departments of the Government, and Congress.

There are, in fact, a number of phases of economic life on which the available information does not throw adequate light. Additional series of figures will have to be developed, both in this Division and if possible in other departments, for the purpose of supplying the missing information

that is necessary for the formulation of credit policy. The principal lines of inquiry on which information is not adequate are changes in the national income, accumulation of stocks, or inventories of different commodities, nature and behavior of bank deposits, and quarterly data on profits of corporations.

Research projects

Among the subjects which the Division feels it necessary to study carefully in the immediate future are the following:

1. Incidence of changes in reserve requirements that the Board may impose on member banks. Material that can be used in this study is now being assembled in connection with an investigation of the effects of the velocity reserve proposal.
2. Character of time deposits and their place in the monetary system.
3. Conditions in the mortgage market and their relation to the volume of construction.
4. Effects of Government credit agencies on banks and other private lending agencies.
5. Study of social security legislation with special reference to the magnitude of the fund to be accumulated and its possible effect on banks and on Federal Reserve policy.
6. Significant grouping of prices in their relationship to each other and to monetary and credit developments.
7. International price relationships with reference to currency values.
8. Effects of Treasury operations, directly and through trust funds, on banking and credit developments.

Additional personnel required

In order to carry on its current activities and to have available time to carry on more fundamental and longer-time research problems, it will be necessary for the Division to have additional personnel.

During the past five or six years, in fact since 1929, the pressure of current work on the Division has been such as to make it impossible to conduct studies that do not arise out of the day-to-day problems of the System's operations. Prior to that time valuable studies were made and to some extent we have been living on the capital then accumulated. Among such studies are Mr. Riefler's study of money rates and money markets in the United States, analyses of the earnings and expenses of banks, studies of branch banking, of reserve requirements, of currency problems in this country, and of inter-district movements of funds. The material resulting from these studies has been of great value in recent years. Other material, however, is going to be necessary and the Division should plan to devote a portion of its time to other problems than those required for current use.

For this purpose we need additional personnel. The Division could use the following additions to its staff as soon as suitable candidates can be found:

1. A junior assistant to help Miss Burr in the study of the capital market.
2. An assistant to Mr. Garfield to work in the field of real estate and mortgages.
3. A person to work in the general field of prices. This may have to be a man of considerable training and experience, because it is a difficult subject and requires a great deal of experience and penetration. At one time we had the benefit of Mr. Morris Copeland's work in this field for about a year.

4. An additional person to work with Mr. Gardner in the foreign field. Work on business conditions abroad needs development and the present staff of the foreign section is fully occupied with its current problems. It is important to have a sufficient staff in that section to permit Mr. Gardner to give some of his time to research problems and reflections in connection with international currency developments. Some of his time is now occupied by committee work under the auspices of the State Department. It also should be possible for him to absent himself for trips abroad or otherwise without crippling the work of the section.

5. An additional staff member in the field of member bank credit.

In addition to these the Board could well afford to add an additional senior economist to the Division's staff to work in the general field of business cycles and monetary management. It is difficult, however, to find a suitable person for that work and the best policy to pursue appears to be to be on the watch for one and to attempt to secure his services whenever an opportunity presents itself. In the meantime, it is desirable to be in close touch with other economic organizations, such as, the Brookings Institution, the National Bureau of Economic Research, the Social Science Research Council, and others in order to profit by their work and, if need be, to cooperate with them in carrying on studies, the results of which would be of value to the Board.

The question has been raised whether we ought to have in this Division a foreign exchange man and a bond market man familiar with the operations of these markets and in close touch with day-to-day developments in them. So

far as the foreign exchange man is concerned, I feel definitely that we do not need him because we are not concerned with day-to-day movements in the foreign exchange market, while longer-time more fundamental developments in these markets are competently followed by the existing staff. Mr. Gardner is exceptionally well qualified to follow these developments, as is indicated by his weekly reports on foreign central banks and by his work in that field at the London Economic conference and in his contacts with the State Department.

With regard to the man familiar with the bond market, I recognize the necessity of knowing all the developments so as to be able to take a lead in open market conferences which deal, of course, not only with credit policy, but also with Treasury financing and with details of the composition of the System's portfolio. A close and intimate knowledge of conditions in the market is, therefore, necessary. It appears to me, however, that it is almost impossible to obtain that kind of a man to work in this Division in Washington, because knowledge of the market rests upon constant contact with it and, in the final analysis, upon actual trading.

The question is, therefore, raised whether it would not be best to have a bond market man employed, not in this Division and not by the Board, but by the Open Market Committee and have him actually do the buying and selling of United States Government securities for System account. This man could spend part of his time in Washington and part in New York and he could be in a position to keep the Open Market Committee and the Board constantly advised about the details of the bond

market situation. Such an arrangement would seem to be in line with the new law which places responsibility for open market operations on the Committee. It does not seem necessary to have the New York bank exclusively act as the agent of that committee.