

Currie

Confidential

June 8, 1936.

RECOMMENDATIONS RELATING TO RESEARCH IN THE DIVISION OF RESEARCH  
AND STATISTICS

Regardless of the lack of a specific objective of policy in the Federal Reserve Act, the Board of Governors is implicitly charged with the very grave responsibility of converting the recovery movement into a period of sustained prosperity, avoiding on the one hand a boom and on the other a relapse into depression. Even with adequate information this may not be possible. With no better information than at present it almost certain is impossible.

Current information is scattered and inadequate. While the individual series in most cases probably reflect accurately the trend, very few of them give a proper picture of the magnitude of the indicated movements. It is absolutely essential for proper forecasting and current timing of policy that relative magnitudes of conflicting and augmenting tendencies be known. Very few economic series have much significance in themselves. They have significance only in relation to other things. Thus, the significance of deficit financing depends upon its magnitude relative to many other factors. Building construction and investment in producers' goods should be related to the volume of current saving. Changes in inventories should be related to changes in production and prices. Instances should be multiplied indefinitely.

The type of research that should be carried on in the Division should be primarily directed toward an attempt to give quantitative significance to trends and to discover and make the relevant comparisons. Actually, the Board must do this when it attempts to make a forecast of developments in the future on the basis of a large number of individual series. Mistakes in forecasting are almost inevitable when the quantitative significance of various trends is unknown and when various series necessary for the making of proper comparisons are lacking.

It is not suggested that the Division should become a fact-collecting agency. What is suggested is that there should be a few people of outstanding ability who should be constantly engaged in attempting to discover significant relationships between economic series, in attempting to utilize existing data by consolidations, sampling technique, and elimination of duplications in order to arrive at a more accurate idea of the relative magnitudes of conflicting and augmenting factors, and in indicating information most badly needed and suggesting the most feasible way of obtaining it. A more detailed discussion of the type of research called for is contained in my memorandum of October 17, 1935. At the present time there is almost no work of this description being carried on in the Division. The senior members of the Division are fully occupied in current work and have little time for research.

In order that research may be coordinated and directed to a common end and that priority be given to the most important matters, it is suggested that a definite research section be organized, in charge of an assistant director. Otherwise, research will continue to be uncoordinated and subordinated to routine work.

It is also recommended that an assistant director be in charge of a section devoted to the collection and presentation of current banking and business statistics and with the issue of the Bulletin. This would involve virtually no change from the present practice.

The remaining assistant director would be responsible for administrative problems both of the Division and of the statistical departments of the Federal Reserve Banks.

The International Section, in charge of Mr. Gardner, might continue to work directly under the Director.

The three Assistant Directors and Mr. Gardner, under the general supervision of the Director, would form the coordinating group. They would be charged with the duty of discussing and making recommendations relative to the coordination of work in the Division and the Federal Reserve Banks. More specifically, they would seek to relate research studies to the operating needs of the Board, they would consider when and to what degree series

developed by the Research Section should be taken over by the Statistical Section, they would seek to relate the work of the Division to the statistical departments of the Federal Reserve Banks, and they would collaborate in preparing current analyses of business, foreign and banking developments, and in making recommendations as to policy. The final decision in all these matters would rest with the Director.

These recommendations relate both to the initiation of a broad research program and to the formal organization of the Division. The past history of the Division indicates that research will be starved unless a change in the organization is effected. The best possibility appears to be to organize a distinct research unit composed of outstanding men. The proposed more definite organization into various sections under the charge of the assistant directors and Mr. Gardner takes cognizance both of the enormous pressure on the time of the Director and of the growing size of the Division.

If outstanding people can be obtained and their work properly tied in with the operating requirements of the Board, there is no reason why the Division should not become the premier business cycle research organization in the country and the most authoritative interpreter of business developments and trends. The fields of current business analysis and forecasting have been left largely to commercial organizations and have been badly covered. The

Department of Commerce is not doing the job effectively. The Board has a greater stake in this field than any other agency, public or private. Although no activity of the System is as important as the formulation of policy, the System is doing virtually nothing to improve the basis on which policy must be formulated. As recovery proceeds the responsibility of the Reserve Administration will become more serious. It would, I strongly feel, be negligent if it did not strive to reduce as far as possible the present enormous element of guesswork involved in interpretation and forecasting.