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INTERNAL ORGANIZATIONAL PROPOSAL.

During recent years the Board's Division of Research and Statistics has undergone an extremely rapid growth, which has been reflected in the enlargement of its personnel from about thirty members a few years ago to about one hundred members at present. This growth has occurred in two directions. In the first place, it has consisted in part of a more intensive development of those fields of monetary and economic research which in the past have constituted the Division's traditional province of activities. Secondly, it has consisted in part of the development of a new field of research which had previously occupied no significant role in the Division's activities. This new field may be broadly described as having to do with the bearing of the government's fiscal policies upon economic conditions generally, and also upon monetary and credit conditions.

This new field seems destined to be of continuing importance to the Federal Reserve System. It is becoming increasingly recognized that a mutual interdependence exists between government financial operations and monetary and credit conditions. The establishment of the fiscal and Monetary Advisory Board symbolizes the growing recognition of the importance of these inter-relationships. Under these conditions there is little likelihood of a return to our former situation, under which questions of government receipts, expenditures, and debt operations were exclusively the concern of the Treasury and questions of monetary and credit policy exclusively the concern of the Reserve System.

It is appropriate, in view of the probable permanence of the Board's interest in the field of fiscal policy, to raise the question whether the present organizational arrangement, under which work in this field is included merely as an adjunct to the regular activities of the Division of Research and Statistics, provides a satisfactory permanent basis for continuing this work. It was wholly logical, when this new and relatively unexplored field of research was first undertaken on a somewhat tentative and experimental basis, to make it a part of the work of an established division instead of creating a new division to handle the function. As a result of our experience under this organizational arrangement, however, I have become convinced that it does not provide a suitable permanent basis for continuing the work in fiscal policy. I propose, therefore, that that portion of the Division's activities which has been under my supervision, together with the work on government financing carried on by Mr. Piser and his assistants, and the work of Miss Anderson on Government credit agencies, be organized under a new Division of Fiscal Operations.

Under existing arrangements the work in fiscal policy has occupied a highly ambiguous status. Partly because the addition of this new activity has coincided with a rapid expansion in the other sections of the Division's work, and partly because of the inherent character of the work in fiscal policy, this work has remained somewhat divorced from the regular work of the Division.

The Director of the Division has found his energies fully absorbed in supervising the expanding activities within the Division's long-established fields of research, which are also his fields of special competence. Active guidance of the work in fiscal policy has been left largely to me, but, since the Director necessarily has formal responsibility for the whole work of the Division, he has felt obliged, quite properly under existing organizational arrangements, to intervene on numerous occasions in specific matters connected with the Division's work. I am convinced that this kind of sporadic intervention, unguided by an intimate familiarity with and understanding of the work of the section, has operated to restrain our effective functioning. It has also been burdensome, I believe, to the Director of the Division. This type of difficulty arises in any organization when, for whatever reason, some new activity is added which falls somewhat outside its special competence.

The section's work has been impeded in various ways by this cause. For example, it has been necessary, in connection with the work in fiscal policy, to approach the study of business conditions in somewhat different terms from those which are customarily followed in the Division in order to emphasize the bearing of particular business developments upon the flow of income. The people in my section responsible for this work have been embarrassed because of the feeling on the part of their colleagues in other sections that they were encroaching on established fields. This has inhibited the full development of their own investigations. Similarly, I have found difficulty in properly developing the field assigned to me because of the Director's lack of familiarity with and understanding of the general approach. This whole range of difficulties could be eliminated by the establishment of a new Division of Fiscal Operations whose Director would be responsible for this work and who would report directly to the Board. At the present time only a small portion of the Division's work in this field is brought to the attention of the Board, as distinct from the Chairman.

There appears to be ample justification and precedent for setting up a separate division for research in a rapidly growing, unified and difficult subject. There is a point in the direction of research, as well as in other activities, beyond which the law of diminishing returns operates. In 1934 the Board created a new division to relieve the Director of Research of responsibility for work in security loans. Two new divisions of research have been created in the Treasury in recent years. Social Security and W. P. A. have several research divisions covering distinct fields.

Present Duties and Responsibilities of the Director of Research

The present Division of Research and Statistics has grown from around thirty a short time back to about one hundred persons and is steadily expanding. The Director is now charged with responsibility for directing and overseeing the work in:

- a. The whole field of business.
- b. The whole field of private finance and interest rates.
- c. Banking.
- d. Monetary policy.
- e. International economic developments.
- f. Federal fiscal operations.

In addition there is a large amount of work in connection with the Annual Reports, Monthly Bulletins, Current Comments, charts, library, correspondence, congressional hearings and banking legislation, conferences, committees and interviews. The personnel problems alone of a large division absorb a lot of time. Finally, for research to be fruitful, a director of Research should keep himself abreast with the developments in theory and statistics made by outside scholars in his various fields.