

STATEMENT BY CHAIRMAN ECCLES
AT THE MEETING OF THE CHAIRMEN OF THE FEDERAL RESERVE BANKS ON NOVEMBER 8, 1943
ON THE RESEARCH WORK OF THE SYSTEM

The chairmen of the Federal Reserve Banks, as a group and individually, have repeatedly shown their interest in the research work of the System and their desire to enlarge its scope and to strengthen the personnel assigned to it. The Chairmen's Conference in a statement adopted on January 26, 1942, after emphasizing the importance of firmly establishing the Reserve Banks "as centers of information, enlightenment and leadership", pointed out that "they must be able to submit comprehensive information, wisely interpreted, on economic problems and regional trends. They must be able to act as centers for interpretation in their districts of national policy and methods in the fiscal and monetary area. They must be able to assume leadership in times of emergency and to exert proper influence on national policy, especially from the point of view of regional considerations."

The Reserve Board, as you will recall, initiated and was directly responsible for the development of the research work at the Banks. While this function was transferred for administrative reasons from the office of the Chairman and Agent to that of the President, after the Banking Act of 1935, this did not mean that the Board here, or the chairmen as representatives of this Board, were to relinquish either their interest in or their share of responsibility for this function of the System. The chairmen must necessarily continue to encourage this work at their respective Banks and to help in coordinating that work as it relates to the development of System policy. Let me say at once that this, of course, does not mean regimentation of thought or dictation, but merely that some direction must be given to the work if it is to be useful and effective, in enabling the System to operate as a System and to have a proper influence upon public policy.

As I have sought to emphasize before, the System is in a unique position to provide leadership and educational work principally in the monetary and fiscal field. The System's standing in the country and its removal from politics give it an opportunity which is enjoyed by no other governmental organization to speak as a disinterested, non-partisan authority. We have practically a free hand to obtain the ablest available economic as well as administrative service. And, manifestly, if the System is to speak with authority, its work must be of a quality that will command universal respect. It must also be so organized as to present a united nationwide front on national issues. If we are to be leaders of opinion, we cannot speak as a babel of discordant voices.

In his general report to the Board of Governors, copies of which you have all seen, Dr. Schultz referred to an impression that appears to exist in some of the research departments of the Banks, "that the Board of Governors wants all research activity to be planned, projected and ad-

ministered from Washington". And while he mentioned that such a belief is a distorted view, possibly indicative of "growing pains" within the System, it is important to clarify this matter once and for all.

If this is a nettle, we had better grasp it firmly right now, for you gentlemen, as chairmen of the Banks, can do much to straighten out misunderstanding. It would be both ridiculous and tragic if the opportunity for constructive leadership in fiscal and monetary affairs, which are the special province of this System, were lost because, on the one hand, this Board attempted to set itself up as a kind of czar over the economic thoughts and opinions developed in the field or, on the other hand, if, as would be equally inconceivable to me, the twelve Banks should attempt to go in twelve different directions. Between these extremes, there is a reasonable reconciliation, which does not mean sacrifice of individual initiative or loss of freedom of thought, but does give the System the benefit of the best thought and judgment available anywhere in the System. If the System aspires to leadership of public opinion on questions of fiscal, monetary, and banking policies, it must devise a mechanism through which its voice may be heard throughout the land.

Such a mechanism is not hard to construct and with goodwill and mutual respect it should not be hard to operate. Far from wanting to discourage initiative and enterprise at the Reserve Banks -- we want to have the System as a whole get the benefit of such initiative and enterprise. We want to have a group of the ablest economists in the System meet frequently with our own research staff, and we want this group to serve as a clearing house and a steering committee for that part of the System's research work which deals with national problems.

I think it will be clear to the chairmen that there must be some coordinating group, some place where competent authority is lodged, to give direction and purpose to research from a national standpoint, leaving to the individual Banks the special responsibility for development of the work that relates to their districts. Cultivation of your own gardens, so to speak -- the study and analysis of the special conditions and problems of the different and diverse districts is of the greatest importance. None of us can fully understand the economy as a whole without intimate knowledge of its different parts.

The research field is so vast, however, that we could very easily be lost in it unless there is -- not dictation -- but a sense of direction. The System could not justify the very large and increasing expenditures for this work if it is to be so diffused and disorganized as to lead nowhere in particular. Public understanding is, as you all know, essential if practical and constructive monetary and fiscal policies are to prevail. The System would add only to confusion, certainly it will not add to public understanding, if it is incapable of coming to conclusions after thorough research and deliberation in regard to national problems and policies.

It seems to me that a joint committee, representing the Board's economic division and the research departments of the Banks, is a logical mechanism for giving guidance, direction and stimulation to the task -- helping to determine what work is worthwhile, or what is not worthwhile, and being in a position to make recommendations to the Board here or to the boards of the Banks. The members of this committee should, I think, be chosen by the heads of the research departments of the Banks and the head of the Board's research staff, and provision should be made for rotation of service so that all of the banks would be assured of representation from time to time. As an aid to this committee, it would be well, I believe, to create also a purely advisory group or committee of three, consisting of one chairman selected by the chairmen, one president selected by the presidents, and one Board member selected by the Board, presumably the one whose assignments include research work and publications. Such an advisory group could be consulted on policy questions or on other matters as to which the committee of economists might wish to have an informal or advisory opinion. It would serve as a useful link between the committee of economists, the chairmen, the presidents and the Board, who comprise the policy-making officials of the System and who, in the final analysis, must take ultimate responsibility for all its activities, including research.

I do not think it is either feasible or desirable to expect members of this Board or the directors of the Banks to assume direct or immediate responsibility for research. They must ultimately decide upon policy matters, but the research itself needs to be judged and guided by economists. They should also, in my opinion, determine which material merits publication and what is equally important -- which does not merit publication. I feel that our own Federal Reserve Bulletin should have the first call, rather than outside publications, upon such material and that it should be made clear in the Bulletin that when articles and studies are published, they are the product of the staff, either here or at the Banks, or jointly, and are not to be taken as official expressions of the Board or of the Banks or the System unless explicitly so designated. In this way, it seems to me, economic work and initiative will be encouraged and stimulated.

We all recognize, of course, that as a public institution, the Reserve System is not free to use its prestige and position to launch attacks upon government, upon labor, agriculture, business, or other groups. Private groups and publications have that privilege, but our task is to advise, to the best of our ability, in the formulation of public policy, not to try to bludgeon into line those who may not agree with us, for whatever reason. Much of the strength of the System, I think, lies in its freedom from politics. We must jealously guard that position.

But because we are not free to fire 16-inch guns at those who may disagree with us, that does not mean that we have to avoid contro-

versial subjects. I feel very strongly that it is essential not to avoid them. It is primarily a matter of approach -- we can and, I believe, we should discuss public problems in published material in an objective, factual manner that will tend to add to public understanding and to stimulate discussion. This must be done without partisanship or bias. It calls for a balanced, impersonal and detached viewpoint and presentation, for the exercise of very able editorial judgment and discretion. A joint committee such as I have mentioned can best, I think, exercise this discretion.

I am sure that no one who fully understands this approach can fail to agree with its purpose or recognize its importance. A democracy is only as strong as the public's understanding of the issues that it faces. We have an opportunity of contributing greatly to this understanding by the use of our talent, our regional and national organizations, and our nationwide intimate contacts with all layers of society. I feel deeply, as I am sure you do, the challenge of this great opportunity for public service.

It seems to me it is of the very essence of research, debate and discussion that men of differing interests and opinions can finally come out on common ground. That, in fact, is the very essence of democracy. Mr. Hoffman's Committee for Economic Development is composed of a good many individualists of differing experience and doubtless differing convictions about many public questions, but they have been eminently successful in uniting in the preparation of handbooks and reports, ably and effectively presented to the general public, and they have not bogged down in mere empty generalities. Nor have they merely busied themselves in piling up a mountain of undigested and unrelated statistics. As Dr. Schultz so well phrased it, nothing useful is to be gained merely by amassing "a colossal inventory" or "a kind of Sears, Roebuck catalog without deciding who would use the catalog."

In a word, it is necessary to come to conclusions as Mr. Hoffman's committee has succeeded in doing and as we as a System must do if all the time, money and effort we propose to expend in research and educational work is to have any value in the formulation of public opinion and public policy. We are not a university, but a public institution with great responsibilities. It may be all right for a presidential candidate to make friends without influencing people, as was said of one favorite son in a recent magazine article. But this System as a public institution, in my judgment, will not succeed or, indeed, survive if it attempts to make friends by having no opinions or if it fears to make enemies because it dares to have opinions. The quality and the competence of its views will depend in the final analysis upon the vision, imagination and ability of its research work and upon the courage and leadership displayed by the directors and officers of the Banks as well as by members of this Board.

The more I think of the System's opportunity in this field, the more challenging and inspiring it becomes. Unless we are capable of coming to conclusions and having opinions fortified by fact and reason, we deserve to and I venture to say we will be replaced by men or by a System that is able to assume leadership. And leadership necessarily means having competent opinions. No large group of men can reach conclusions without some differences in emphasis or often without outright disagreement. Democratic processes, as you all know, represent the composition of differing viewpoints.

And when we come to think of it, the area of agreement on basic issues is very great among us. We all stand, I am sure, on common ground; for example, in wishing to preserve democratic institutions and a capitalistic economy in which the profit-motive is the basic incentive. We are all opposed to overcentralization of power or, on the other hand, to such decentralization as to render the word "Federal" meaningless and to make the national government incapable of functioning. Somewhere between these two extremes there is a workable and reasonable common ground. Little men and demagogues, of course, see only the extremes. They have neither the will nor intelligence to find the practicable middle ground.

More directly in the field of our responsibilities we all, I am sure, want to preserve private banking enterprise in this country. But here again the extremes between purely selfish interests on the one hand and having government take over the banking system on the other hand, require reconciliation which reasonable men do not find too difficult. We would all agree today, I think, that the powers with which the Reserve System is armed under the law are not sufficient to achieve economic stability. And yet, these powers unwisely exercised could do much to cause instability.

I am sure we are none of us blind to the fact that today fiscal policy greatly overshadows monetary policy as an instrument of public policy. I would be very much surprised if any of us, in the light of war finance if not in the light of what went before, still thinks of taxation merely as a means of raising revenue. We all realize today, surely, that taxation is of crucial importance in its effects upon stability, upon the distribution of income, upon the balance between savings and investment.

The matter was well stated in the pamphlet, America and the Future, containing two articles by the editors of the magazines, Time, Life and Fortune. After stressing the importance of creating a climate that is favorable so far as possible to private enterprise and initiative, the article on the domestic economy said:

"If the conditions of freedom and expansion are maintained, so that the country's productive machinery is in good working order, then the Government can employ a still more powerful weapon against unemployment. This is its fiscal policy, which means the relationship between what the Government borrows, what it collects in taxes (and from whom), and what and where it spends. Some combinations of these factors have the effect of reducing or raising consumption; others of reducing or raising savings and investments; and these are all factors in the equation of which production -- i. e., employment -- is the X we wish to control. There is a right fiscal policy for every phase of the business cycle. If the Government, with the help of economic science, finds and applies the right policy, we can maintain a high and fairly steady level of employment at all times."

I have sent copies of these articles to all of the chairmen as well as to the presidents because I think this discussion is well worth careful reading. It is the sort of stimulating, informative discussion that is objective, without partisanship or prejudice.

The more we learn, the more facts we have, the more likely we are to find a common body of opinion and to come to definite and practical conclusions. Because such powers as the System has must be exercised in coordination with other governmental powers, it is essential that we understand other governmental powers, especially in the entire fiscal field, and we must understand what effects the exercise of these powers has on the economy if we are to use our own special powers intelligently. The more I contemplate the future of the System, the more I am forced to the conclusion that its monetary powers and their exercise will continue to be overshadowed and dominated by the fiscal requirements of the government, and the more I am forced to conclude that the System's influence will depend primarily upon its ability to give good advice supported by convincing evidence on a wide range of fiscal and monetary problems, national and international.

I could not more strongly emphasize the importance of research work than in making such an observation, for our ability to give good advice necessarily rests on the facts we are able to assemble and the interpretation we place upon those facts. We are not, as I have said, a university, nor are we a debating society, but we are concerned with practical measures bearing upon current government operations both now and in the future. We are concerned with reality, not theory. It is up to us to know the facts about employment, about consumer buying power, about the relationship of production to consumption, about savings, about the opportunities for investment, about labor problems, about foreign trade, capital movements, exchange rates and the balance of payments; in

fact, about numerous cold, hard matters that are bound up as practical questions in our striving towards the goal of full and sustained production and employment. The abler our research work and analysis, the more time and thought the chairmen, the other directors, the officers and the staffs of the Banks, their branches, and the Board give to such problems, the greater will be the public service rendered by this System,