RESEARCH AT THE SEVERAL FEDERAL RESERVE BANKS

(A general report by T. W. Schultz based on the observations made during August, 1943)

To the Chairman of the Board of Governors
Federal Reserve System
Washington, D. C.

You have felt the need for giving more attention to the development of research within the twelve district banks. You have considered appointing an Assistant Research Director to your staff to help in developing this research. Several questions arise: What should and can Assistant Research Director, working with the several banks, do? Specifically; what do you contemplate his task to be? What is the framework within which he would function? How is research in the banks to be related to research by the Board? And, also, what should be the nature of your expectations?

These are some of the questions that I have had in mind as I made my brief survey. My visits to 8 of the 12 district banks and my other inquiries have given me, I trust, enough background about your problem and situation (and not to be minimized are your research accomplishments; qualitatively, they are among the very best in government) to give me a basis for suggesting what can and what needs to be done to bring about an orderly development of competent, useful and integrated research within the several banks, research that is appropriate to a central banking system.

First, let me state certain basic assumptions, matters that I have taken for granted in this report. They are: (1) that fiscal and
monetary policies and programs should be vested in the federal government; (2) that the Board of Governors of the Federal Reserve System should be vested with the authority to perform the functions of a central bank; (3) that the functions of a central bank are such that they require unified action and not twelve autonomous regional policies and programs; and (4) that it is not only appropriate but essential for a central bank to engage in researches related to its functions.

I find it convenient from this point on to make my observations in the form of answers to a series of questions. These questions fall under three major headings; namely, subject matter, personnel and organization.

I. Subject Matter

1. What is the purpose and merit of the research that the banks are now doing?

Answer: The resources that are allocated to the research departments are used to do several things, as follows:

a. To collect data (e.g., department store sales) for the Division of Research and Statistics of the Board of Governors. This job is a necessary one. It usually becomes a routine assignment and then it does not require the services of a trained economist.

   This task, however, needs careful overhauling periodically. Old series become obsolete, but the collection process goes on. New methods are not adopted. I saw little evidence, for example, that modern sample techniques were
being used. The drift is toward census taking of the items for which data are collected. Both theory and practice in the field of small samples have progressed to the point where census taking is a waste of resources because adequate data can be obtained from small numbers of sampling units.

There is a need for regional indices.

b. To make service studies of certain operational features of the bank. In the main, these assignments are hardly within the sphere of economics. They might deal with such questions as the rate of personnel turnover, cost of promotional schemes, cost of power and heat for the bank, etc. These studies involve merely bringing together various data and arranging them in a logical order so that the management can quickly interpret them. These are little chores. They do not take much time. Someone must do them. I see no reason why the research department should not serve in this way. In fact, the management in most banks might do well to turn small assignments of this sort over to their research department more frequently because, in most cases, there is no one in the bank who is as competent as those engaged in research to carry through small inquiries of this type.

c. To prepare the materials to appear in the Monthly Business Review of the bank. This is a major task in nearly all of the banks. In some it absorbs virtually all of the time and energies of the research department. In others, with a well-rounded research staff a smaller fraction of the time
of the department is required for this purpose.

All too little imagination has gone into the preparation of the Monthly Business Review. In most banks the thing is stodgy, unreadable, a conglomeration of figures, with interpretations so dehydrated and feeble that no one can possibly guess what is meant. There is, however, some wholesome experimenting going on—the use of a better format, feature articles, supplementary letters and pamphlets. It certainly should be encouraged. There is no reason why the Monthly Business Review shouldn't become a publication of value and influence, readable and sought after by business, labor and farm leaders in the district.

Special attention should be given to the improvements that are being made at Atlanta and Chicago and to determine their effectiveness and to what extent similar methods can be used by the other banks. A small committee representing both the research workers in the banks and the Board of Governors should be assigned to study how to improve the Monthly Business Review.

d. To do public relations work for the bank. This task has many variants. In the main, it is decidedly on a hit-and-miss basis. The banks do not have a well defined public relation policy. All too little thought has been given to the implications and the usefulness of what is being done. Public relations work needs to be overhauled. In most banks it is down the wrong groove.
In some banks the Chief Economist gives most of his time to educational work—a high type of public relations. Meetings are held with business men, bankers and others to discuss broad fiscal and monetary questions (Minneapolis). In other banks the task of collecting department store sales and other statistics is used to establish better bank relationships (Chicago). Research may also be used to aid the community in examining its economic problems (Atlanta, Minneapolis, Philadelphia). In other banks, however, public relations work is vested in an individual who is not in the research department, who makes a kind of social call—cigars, golf, stories.

I am convinced that the most effective public relations work for the banks lies in their doing a first-class educational job—disseminating to bankers, labor, business and farm leaders the results of their research. This job should also bring the banks into close cooperative relationship with the schools—especially with the institutions of higher learning. The task, as herein visualized, is sufficiently important that it should be one of the principal responsibilities of the Chief Economist of the bank.

e. To prepare and make reports to the officers and directors on current economic developments. The more mature banks use their economists for this purpose constantly. Other banks, however, do not. In my judgment, one of the more significant
contributions that a research department can make is in this sphere.

To prepare and make reports that are useful to the officers and directors the economists must know the main questions confronting the executives of the bank (which is possible only when he is a major officer of the bank) and he must, of course, command their respect. There must be freedom of thought and expression.

On the other side, it will still take a long time before the officers and directors of some banks learn how to use economic information. Substantial gains have been made in this sphere, however. More can be done. An Assistant Research Director might well help bank officers and directors find out how to use the talents of their economic staff. Even so, the Board of Governors will have to continue to use the good influence of their officers to facilitate this end.

f. To prepare technical memoranda for officers and directors.

Here is a most important task--one that may easily be underrated by the Board. Again, the banks that have matured have advanced most in this sphere. Much more needs to be done by most of the banks. The laggards again need help in how to use technical economic studies of this type. In the banks in which the officers and directors have learned how, there is a danger of asking the research department to use too much of its time in preparing these memoranda.

I have one major adverse reaction: It simply does not
make sense to mark all of these memoranda "confidential" and thus bury them forever in the archives of the bank. Some of these studies embody significant contributions that should be published either in the Monthly Review or in professional journals or as monographs and used by the bank in its educational program.

g. To make basic studies of economic problems confronting the district. Since this task has been so much in the forefront in the recent research discussions within the system, I propose to give it separate treatment, as I do below.

2. Are there major research fields appropriate and essential to the district banks?

Answer: Yes. There are fields in which the banks will have to make studies if they are to perform their functions effectively. On this point I have no doubt. The precise nature of these fields of research cannot be formulated offhand. It would require and it deserves much more careful thought than I could possibly have given it during my short survey.

One additional observation, however: Research is the one technique that has the capacity to keep the officers and directors of a bank from becoming stagnant, from institutionalizing their functions to the point that they become static and obsolete. Organized research can be a powerful leaven—the yeasty element which is indispensable to any institution if it is to survive in a dynamic, changing world.

3. What is the purpose and merit of the so-called regional studies?

Answer: The regional studies are still in a formative stage. In
the main, very little progress has been made. The research departments in most of the banks are somewhat distressed because they don't understand what is intended because they haven't done more and because they don't know how to proceed.

There has been too much fumbling. Not all of it could have been avoided. Some of this milling around is inherent in any new undertaking. The main difficulty, however, lies deeper. It is to be found in the failure to make explicit the function of this research within and to the bank.

In one sense the goals outlined have been too broad, too comprehensive, too all-inclusive. To decide that the banks should become centers of information, enlightenment and leadership serves as a broad directive and for this purpose is quite excellent; but it is wholly inadequate as a research objective. Granted, of course, that that was not its purpose. To focus upon important economic changes occurring in the district or on post-war problems, while much more specific, still is much too broad.

This is about what has happened in the banks: Some banks have proceeded to bring together all of the data they could find about their district—a colossal inventory, a kind of Sears Roebuck catalog without deciding who would use the catalog. Other banks have not ventured forth at all—some because they lack personnel, others because they didn't know what to do. A few of the banks have tackled the regional studies with imagination, taking cognizance both of the functions, attitudes and machinery within the bank and of the realities of the economy of the district. Philadelphia is making an intensive, geographical, county-by-county study. Chicago is making specific industrial studies. Both of these have enough.
promise to warrant support; moreover, the results should be followed closely as examples of what can and can't be done by these approaches.

The dichotomy of geographical versus industrial studies, however, is an unfortunate classification. It certainly is not a useful one. The fundamental determinant should be the problem to be analyzed and solved. The analysis may entail both geographical and industrial considerations. One certainly does not exclude the other.

II. Personnel

1. How competent is the research personnel of the banks?

   Answer: Competency has a meaning only when it is related to specific tasks. There are not many men in the research departments of the banks who would qualify as highly trained, competent economists. There are a few young men who give promise of developing as able analysts.

   Much more emphasis needs to be placed upon professional qualifications in selecting and appointing research workers. Most of the departments not only need but probably would welcome more assistance. The president in most banks does not give them as much help as they need to induce well qualified individuals to join the staff. Another obstacle is the acute scarcity of qualified economists. Then, too, not many administrators recognize an outstanding candidate when he is available.

2. How adequate is the number of research workers in the banks?

   Answer: The number of competent economists is wholly inadequate. The research departments without exception are understaffed with men of quality on the professional level.
On the other hand, most of the research departments have enough individuals who can do routine assignments and perhaps prepare minor studies. Along with the paucity of professional workers who can undertake an economic analysis on their own, nearly every department has "inherited" or acquired a few persons who are deadwood, who at best can do routine jobs usually no better than an average clerk. Now, when other jobs are available, is the time to weed out such individuals.

3. Is there any effort to aid research workers in the banks to develop further in their profession?

Answer: In the main, the research workers of a bank are isolated professionally. They are bound to become stagnant, to get into a rut, to stop growing. Unless there are plans and programs to activate them and keep them in touch with their discipline, they stop growing. A number of things are needed. Time off to do graduate work, encouragement to complete Ph.D. theses, leave of absences to attend professional meetings and do special studies for other federal agencies, Board of Governors, National Bureau of Economic Research, etc. More important still is a periodic leave of three months or more at least once every second year for the purpose of returning to a graduate center to refresh and refurbish intellectually.

4. Are research workers being motivated to do their best work?

Answer: In the main, no. The chief stumbling block in motivation is not inadequate salary, insufficient promotion, or insecure tenure, but the lack of professional recognition—the inability of the research worker to establish himself among his professional colleagues.

To join the research staff of the Federal Reserve System is like entering a monastery. The individual leaves all claims and all chances to
advance in his professional world behind. He no longer has at hand ways and means for bringing his own professional talents to the attention of his peers. This might appear as an overstatement, but it is not. Everything that a research worker in the bank does usually fails to get beyond the next man in the hierarchy and when it goes further, in any case, it ends up in the files of the bank. The failure to have developed an adequate publication policy means that the banks are dissipating the strongest incentive there is to motivate research workers to do their best. A very drastic reformulation of the rights and privileges of a research worker to publish is overdue. This incentive must be harnessed if the bank wants efficient, effective and competent professional personnel.

You have much to gain from a policy that succeeds in motivating the best possible research. Research is the one big asset upon which you have not realized fully. The prestige of the Board does not rest upon law, that is merely the seat of its power, but upon its intellectual leadership—the understanding and the ability to chart a course through the rough, bad economic storms that are ahead.

I would urge that you appoint a special committee to study the whole question of motivation of research workers with special emphasis upon publication policy. It occurs to me that this committee might consist of Professor John Williams, Dr. E. A. Goldenweiser, and a third person also of professional standing but outside of the Federal Reserve System.

III. Organization and Administration

1. How adequate are federal-district research arrangements?

Answer: There is room for much improvement. Misunderstanding
prevails. Some of the research workers of the banks are restive. Some feel they have been neglected. Others believe they are likely to be suppressed. There is enough to these misapprehensions to make it necessary to clarify this situation.

The problem of federal-district relationships in research has three major facets: (a) attitudes, (b) personnel, and (c) rules and procedures.

Before I touch briefly on each of these facets, two observations are in order. First, the mere fact that these relationships require attention is evidence that the system has not been static. In research you are advancing—a healthy, vigorous development. It is this dynamic process that brings with it these new problems. You have arrived at the stage when some of the research departments in the banks are "going concerns". They are turning in a good account of themselves. A few banks have individuals on their staffs as competent as those engaged in research in the Division of Research and Statistics of the Board of Governors. All of this is as it should be for it reflects progress in research in the banks, which certainly merits commendation.

The second thing that needs to be said is that federal-district relationships is not a new type of problem. Nor is it peculiar to the Federal Reserve System. We have it in every compartment of our national organization. It can be a source of great strength, as is evident in agriculture which is more mature and which has received the benefit of much constructive imagination and leadership in the development of its federal-state relations.

Now let me return and comment briefly on the three facets in this sphere.
a. **Attitudes:** Most of the apprehensions that I have found, both among federal and bank personnel in research, are probably without foundation.

There are two kinds of misunderstandings: (1) the belief that the Board of Governors wants all research activity to be planned, projected and administered from Washington; and (2) the belief that research workers in the bank are prone to neglect, if not undermine, the national functions of the Federal Reserve System which require unity of action. Both of these beliefs are distortions. They are views that are badly out of focus. I should add, however, that these views should not disturb you unduly because in a sense they are to be expected from growth and change. They are a part of the growing pains of the System.

Nevertheless, it will be necessary to take cognizance of these misunderstandings and proceed to prepare the ground for more realistic and constructive attitudes, attitudes that reflect and are consistent with the fundamental circumstances that do, in fact, prevail. What is needed is clarification. Most of the misunderstandings can be lifted and the air cleared for better federal-district research relationships.

b. **Personnel:** A second step in improving federal-district relations involves the addition of major personnel to the Washington research staff. Two things are needed. First, a competent economist who has considerable administrative ability and who understands the human equation in research. This is
the kind of man you have in mind, I am sure, as you seek and select an Assistant Research Director.

But this is not all. You will need to do a second thing. It will be necessary to add to the Division of Research and Statistics at least three, and perhaps as many as five, top-flight economists whose duty it will be to work (collaborate) with the economists in the banks on joint studies. These men must have sufficient capacity and standing to obtain the professional respect and confidence of the most competent economists in the banks. Until such personnel is available in the research divisions, there is little likelihood that joint work will develop. To put it in a simple term: What has the federal office to contribute to a cooperative study?

An Assistant Research Director is not enough. You will need, in addition, a few outstanding economists whose task it will be to collaborate with bank economists on studies of mutual interest.

c. Rules and procedures: In the main, these will have to be forged out of experience. My short inquiry has not given me enough background to suggest to you the content of the rules and procedures that are required. Out of my broader experience in agricultural economics, however, I may suggest two illustrations of what I have in mind. The experience of the Office of Experiment Stations (USDA) and the state experiment stations is that there is much wisdom in having each research study involving federal-state cooperation outlined giving the
aims, methods, literature, history and proposed budget. I would further suggest that each project obtain the approval of the president of the bank and the director of research of the Board of Governors. My second suggestion growing out of my agricultural experience is that every research worker of professional rank be encouraged to publish as an economist in professional journals and in other outlets appropriate for professional work and that his promotions be dependent in large part upon the standing and rating that his published work acquires amongst his colleagues.

2. How adequate are the relationships between the research department and the bank?

Answer: In those banks where research is headed by a vice president and where the chairman and the president understand the nature of economic analysis, the research departments are integrated excellently with the bank. In those banks, however, where the above conditions do not prevail, the research department is less effective and in a few instances it is, for all practical purposes, isolated.

There are several conditions that appear important and necessary in the organization and administration of research within the bank: (a) The research work should be headed by a competent economist who has the status of a major executive officer in the bank. To make the individual in charge of research a Consulting Economist or to appoint him on a part-time basis or to exclude him from the executive process is not satisfactory. Experience indicates that these arrangements give poor results because they fail to make research functional within the bank. (b) A corollary to the above, the
The economist in charge of research should participate in meetings of officers and directors of the bank in order to stay abreast of the problems confronting the bank on the executive level. (c) The officers and directors of the bank should develop an appreciation of the methods and procedures employed in analytical work and of the functions and limitations of research.

3. Are the research departments in the banks adequately organized and managed?

Answer: The type of organization differs widely and the way in which the economist in charge administers the department also differs greatly from bank to bank. Moreover, there is no one unique pattern, either in organization or administration, that recommends itself. A small bank with a small research staff might well proceed with a loose, highly informal type of organization which certainly would not be appropriate for a larger bank. The important thing at this stage is to avoid any effort to force each department into a common mold.

There are several research departments that show signs of superior organization and administration. Some things might be learned from their experience and some of their procedures might be applicable to other banks.