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02005
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Mr. Edmund E. Day
Rockefeller Foundation
61 Broadway
New York City

Dear Mr. Day:

Enclosed is a copy of the National Bureau's application to the Falk Foundation. The materials referring to the past work of the Bureau are omitted since they are not essential for that part of the total application which is enclosed.

Gow has asked for our reaction to this application on the following counts:

"1. Do the new studies which the Bureau would like to undertake deal with zones of economic information which are basically important?

"2. Is the present status of information in these zones so unsatisfactory that there is real merit in the Bureau's desire to improve this information?

"3. In view of the present need of society for sound economic action to guide it out of the present depression, can a foundation such as ours justify the expenditure of money at this time for the gathering of factual material which only in the long run and indirectly will help answer specific questions and problems and guide practical action?

In view of your intimate acquaintance with the Bureau's organization and program we are especially eager to have your frank criticism of the proposals which have been developed by the Bureau's staff. You can be sure that comment from you will be kept in strictest confidence.

Sincerely yours,

Meredith B. Givens

MBG:AMS
Enclosure

P.S. Mr. Gow has asked for our appraisal and comment before the first of next week.

MBG

December 15, 1931

DEC 16 31
Telephoned 12/22/31
Bureau projects
No. 1, 2, and 4 rated
higher than No. 3
on ground that
they fall more
clearly within
sphere of Bureau's
demonstrated
competence.

Opinion ex-
pressed that
it is highly
desirable
that Bureau
be provided
with addi-
tional funds
for expansion
of program
along lines
proposed
E.E.D.

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

51 Madison Avenue

New York City

December 2, 1931

Mr. J. Steele Gow, Director
The Maurice and Laura Falk Foundation
Farmers Bank Building
Pittsburgh, Pa.

Dear Mr. Gow:

In behalf of the National Bureau of Economic Research, and acting upon the vote of its Executive Committee, I hereby make application to the Falk Foundation for a grant of \$150,000, spread over a three-year period, to the National Bureau of Economic Research. This sum will enable a group of new studies to be undertaken at once at the National Bureau.

I enclose a memorandum on the work now being carried on at the National Bureau (pages 1-23 of the memorandum) and also a description of the proposed new studies (pages 24-39). A large share of the time of the staff of the National Bureau during this past year has been taken by a survey of the period of recession and depression, 1929-31. The publication of this study will probably be postponed for several months during which time it will go to the members of the Board of the National Bureau and to the members of the Sponsoring Committee on Recent Economic Changes but in the meantime the National Bureau is anxious to begin as soon as possible an investigation to cover some of the most important gaps in our knowledge which our study of the depression has emphasized. These proposed new studies are as follows:

(1) A thorough revision of the estimates of National Income, its total amount and especially its distribution. This requires the appointment of a competent man and a small increase of staff. Professor W. C. Mitchell has undertaken to give general supervision to the study. The estimates of income have been made by the National Bureau since its foundation, but with the development of new material and the perfecting of technical methods there should be a periodical reappraisal of both materials and methods. The National Bureau is very desirous of making such an appraisal at the present time. This will mean probably an expenditure of perhaps \$20,000 the first year, \$15,000 the second year, and \$10,000 the third year, when as a continuing study it can be put again upon a routine basis.

(2) A Study of the Investment of Capital - a study of the flow of savings from its various sources and their distribution for varying economic purposes.

This study is linked with the investigation of national income, but it calls for expert knowledge of a special kind. There should be developed as a permanent new source of information a monthly index showing the volume and direction of the different kinds of capital investment in the United States. Such an index might properly be taken over by a Government department provided the critical work of opening up new sources of information is first

accomplished. There is an additional special study to be made of the agencies of capital accumulation and distribution which is more periodic in character. This is one of the most vital gaps in our existing knowledge. We estimate that a competent specialist with a small staff could do the work desired in three years' time. The heaviest expenditure will come from the middle of the first year to the end of the third.

(3) For a number of years the National Bureau has desired to use its methods in making a contribution to the important problem of the increasing control of business in the United States and its effect upon the competitive system. There are large elements of opinion and of theory in this problem which will need to be objectively evaluated in any study of the subject but the emphasis will be placed by the National Bureau upon the elements of fact, thus removing at least a part of this contentious subject from the realm of controversy. A competent man is available for this work and in our judgment the expense is likely to be distributed in a manner somewhat similar to number 2, a preliminary six months' study followed by a larger expenditure from the middle of the first year to about the middle of the third.

(4) The Bureau also proposes a revaluation of the physical volume of production in the United States and a study of the flow of goods from producer to consumer. A considerable amount of the material required for this study is already available but it needs a new testing and the addition of further information. Three of the present members of the staff of the Bureau will give special supervision to this study and a competent younger man with adequate statistical assistance will be employed.

In the budget estimates herewith submitted the direct expenses of these projects are entered without the necessary provision of the overhead charges which would be assignable to each one if funds were to be sought for individual projects. The overhead charges are included in the budget under the heading D. General Administration, which is estimated to provide for the new projects herewith proposed. It is also advisable from the standpoint of effective utilization of the Bureau's resources and for the most economical use of the Bureau's funds that the project should be envisaged as a whole rather than that the grants should be made on an annual basis and the unexpended balance lapse at the end of each year. Taken as a whole the work can be better planned and better coordinated with the other work of the National Bureau. It is therefore requested that a grant be made for the total needed for the enlargement of the National Bureau's program, to be payable at the rate of \$50,000 a year. The National Bureau would, with that arrangement, make the adjustments for the heavier expenditure of the second year and render annually an account of its expenditures under the grant.

The description of the work now being carried on at the National Bureau which is given in the memorandum and which is also included in the budget statement has left one item unexplained, namely number 8. A very able economist, John Maurice Clark, has been engaged by the National Bureau to bring his acute analytic quality to bear, in cooperation with Professor Mitchell, on the new methods of measurement which Professor Mitchell is establishing for business cycles. The ultimate object of the long statistical work in which the National Bureau has been engaged, under Professor Mitchell's guidance, in measuring business cycles is to discover what factors are continuously most active in bringing about the changes from business prosperity to business depression and again from depression to prosperity. It has seemed highly desirable to the National Bureau that Professor Clark's exceptional critical ability shall be

engaged at this important stage of our work. The National Bureau has also to examine its experience in making large periodical surveys and to set up as far as possible a plan and skeleton organization for such surveys. It is designed also to use Professor Clark in this work.

With the memorandum from the National Bureau and the budget, already referred to, there is also included a statement of our current budget expenditures for 1930 and to October 31, 1931, a statement as to the sale of our publications, and copies of the grants at present operative to the National Bureau from the Rockefeller Foundation and the Laura Spelman Rockefeller Memorial. I send also ten copies of the last annual report of the Directors of Research.

I am

Yours sincerely,

(Signed) Edwin F. Gay

Encls.

PROPOSED NEW STUDIES
BY THE
NATIONAL BUREAU OF ECONOMIC RESEARCH

The National Bureau has been called upon from time to time to conduct general surveys of economic conditions. The difficulties facing such attempts to describe and to interpret contemporary events over a wide front have been clearly realized by the research staff and the Directors, but the compelling character of the issues involved and public obligations which the National Bureau recognizes have impelled us to undertake these studies. The third of these enterprises, a study of economic changes from 1928 to 1931, is now under way.

The prosecution of the National Bureau's research program has been in some degree impeded while these surveys have been under way, but there have been certain salutary results. The pooling of resources and the focusing of energies upon a single immediate task have served to unify the work of the various staff members. From these studies, moreover, there has come a clear recognition of the necessity of such periodic chartings of the course of business and a realization of the gaps in our present knowledge which must be filled before intelligent appraisal of current economic conditions is possible.

The projects to be added to our present program of research, in the event that additional funds are available, have been selected with chief regard to the filling of the most serious of these gaps. Until this can be done a whole host of problems must remain unsolved, or only partially solved.

1. Study of the Amount and Distribution of the National Income.

A knowledge of the absolute amount of our national income as a stated figure in billions of dollars is of some value, but our interest in this matter is not limited to its statistical aspects. In the last analysis changes in general economic well-being may be most effectively measured through changes in aggregate national income. As we follow from year to year the fluctuations in

economic conditions, the recurrence of prosperity and depression, the subsidence of old industries and the emergence of new ones, the shifting play of consumer demand and the varying fortunes of different economic classes, it is difficult to say whether real economic progress is being made, and how rapid this progress may be. Yet these are matters on which light must be thrown if man is intelligently to measure and direct his economic activities. In measuring aggregate national income and in tracing its variations from year to year we attempt to chart the course of the main stream of economic development, and to place in proper perspective the shifts and fluctuations which bulk large in a close-up view.

The measurement of the national income of the United States was the first task the National Bureau undertook, a task carried through by all the members of the National Bureau's staff. The technique employed and the results secured in this first investigation (results which appeared in Income in the United States, Vol. I, 1921, Vol. II, 1922, Distribution of Income by States, 1922) have furnished the foundation of subsequent studies (Income in the Various States, Its Amount and Distribution, 1925, and The National Income and Its Purchasing Power, 1930.)

In the years that have passed since the initial investigations were made our own experience has ripened and new data have accumulated. We feel that it is now time to re-appraise our earlier work and to make a fresh attack upon this fundamental problem. Without such a reconsideration of our basic estimates we believe that attempts to build upon our earlier work will be subject to a constantly greater margin of error.

The general objects of this investigation have been suggested. We wish to measure the changes in the aggregate volume of wealth annually produced in the United States, measuring this stream of wealth as it is distributed to income recipients of all classes and kinds. The character of this distribution is in many respects as important as is the aggregate volume. What changes are

occurring in the absolute amounts and in the proportions of the total income received by farmers, by industrial employees, by salaried workers, by stockholders? We cannot plot the course of our economic development without knowledge of these facts. What is the average amount received by income recipients, and what changes are taking place in this average? How many income recipients receive less than \$1,000 a year? How many earn from \$1,000 to \$1,500 a year? How many receive more than \$10,000 a year? Are the rich getting richer and the poor poorer, or is the reverse true? How are the standards of living of the rank and file of the people of the country changing? Unless we can answer these questions with reasonable accuracy, we are following a blind course in our economic development.

This earliest study of the National Bureau is at the same time a central study, one which provides a unifying framework for all the other studies of the National Bureau which deal with specific economic processes. Business cycles are important in the last analysis because they alter the aggregate volume of national income and the proportions received by different groups of income recipients. The studies of unemployment and of the general course of wages deal with aspects of income distribution. The investigation of prices is essentially a study of the monetary mechanism through which goods are exchanged and through which real income is ultimately apportioned among different groups.

The new projects outlined below -- studies of capital formation and of the volume and character of production in the United States -- deal with aspects of the problem of national income and its distribution.

In this new study of the national income full use will be made of the earlier work done by the National Bureau. The continuing series which have been maintained by Dr. King will be utilized. Dr. Thorp's collection of the estimates of national income and of the volume of production in various countries will provide a valuable background for the fresh attack which is proposed.

2. Study of national savings and the investment of capital.

Every year a certain proportion of the total productive resources of

the country is devoted to the building of industrial plants, the construction of new mechanical equipment, the making of roads and railroads, of power plants, of bridges, and of other permanent utilities. Another part of our productive resources is devoted to the making of goods for direct consumption or use -- bread, shoes, clothes, passenger automobiles, residential buildings, steam yachts. The apportionment of our total energies as between these two major uses is a process of profound importance. The total supply of productive equipment must be maintained and enhanced, if the level of economic well-being is to be progressively raised while the current flow of consumption goods must not be impeded.

The part of our total resources devoted to the extension of fixed plant and the part devoted to the output of currently consumable goods vary from time to time. In a competitive economic system there is no supreme dictator who thus apportions our labor. This distribution is determined by the actions of millions of persons -- by private individuals, in determining what proportion of their annual incomes shall be placed in savings banks or used for the purchase of stocks, bonds, or insurance, by corporations, in determining what proportion of profits shall be distributed as dividends and what proportion shall go into surplus, by banks in the extension of credit for short-term and long-term purposes, by governments, in determining what proportion of the national debt shall be retired each year. As these numerous decisions vary, in response to changes in interest rates, alterations of governmental policy, variations in the plans which men everywhere are making against the chances and changes of the future, so does the disposition of our total productive resources vary.

What appears on the financial side as a process of saving and investment appears on the productive side as a diversion of labor from the making of consumable goods to the making of instruments of production, of goods which satisfy our wants only indirectly, through facilitating the production of other goods. It is possible to divert too much or too little to this purpose. And it is possible, by abrupt changes in the proportion thus diverted, seriously

to affect the working of our economic mechanism.

There are some who think that current ills may be traced to faulty division of our energies and to faulty distribution of current income as between these two uses during the years prior to 1929. Here, again, knowledge is meagre. One of the greatest disabilities under which economists labor today, in seeking to interpret economic conditions arises from the lack of accurate statistics of the total volume of savings in the United States. How much is saved annually, and by what agencies? How important is saving by individuals, as compared with capital accumulation in the form of corporate surpluses? What proportion of the total national income is expended on current consumption, and what proportion is saved? How does the total volume of savings vary from time to time? We are unable now to give precise answers to these fundamental questions. In our inability to answer them lies one of the major weaknesses of contemporary economics.

Equally serious is our lack of information as to the distribution of current savings -- their use in building up capital equipment in different industries, in swelling the fund of liquid capital employed in the current processes of business, and in augmenting our investments abroad. We sorely require more knowledge than we now have concerning the forces that determine the allocation of capital for different industrial uses, concerning the degree of promptness with which changing needs stimulate alterations in the apportionment of capital, concerning possible economic ills resulting from faulty distribution of capital. These are matters of central importance in the working of a modern industrial system, yet no comprehensive, organized attempt has yet been made to fill the gaps in our current information.

Our interest in this direction is not confined to the statistics of savings alone. In this country we have built up an elaborate mechanism for the purpose of collecting the millions of small and large contributions to the national fund of savings, and for the distribution of these savings to the various individuals, corporations, municipalities and governments which have need for

capital. We know that this complicated, far-flung system for the collection and allocation of capital funds, -- the structure of insurance companies, security exchanges, trust companies, savings and commercial banks and investment banks-- does not work perfectly. How serious are the faults, and to what extent deficiencies in this system contribute to such depressions as that which at present prevails, are questions we should be able to answer.

It is proposed that the National Bureau undertake a project, or series of projects, directed toward the problems described above. Such investigations would be closely related to the studies of national income and to the investigation of changes in volume of production which is also in prospect. The services of an additional staff member would be required for this enterprise.

3. Studies Bearing on the State of Competition in the United States

In any economic system in which freedom of enterprise prevails, in which any man may engage in any economic activity he cares to, regulation is secured through the play of competition. It is through competition that thousands of diverse activities are coordinated. The number of men engaging in each important occupation is determined through the play of competitive forces, and through the tendency toward equalization of rewards which results from the play of these forces. The amounts of various kinds of goods produced and transported to consuming centers are similarly determined, through the force of price competition and the reaction of changing prices on profits. The same cardinal principle is assumed to determine the amount of savings made annually, and the allocation among different industrial and governmental borrowers of the capital sums thus accumulated. Competition is supposed to provide the balance wheel which keeps in adjustment the numerous working parts of a modern industrial system.

It is a matter of common knowledge that far-reaching changes have occurred within the life-time of the present generation of business men in the state and character of competition. The conditions of full competition, of

free prices, of unrestricted mobility of labor and of the other agents of production, conditions which are traditional features of an economic system founded on individual initiative and freedom of enterprise, have been limited in varying degree by the development of recent years. The precise character of these limitations, and their significance, are not yet understood. Whether the present world-wide economic difficulties are to be attributed in considerable part to a breakdown of the machinery of economic coordination through free competition is an open question.

The problem we here face is perhaps the most serious economic question of the day, for it touches the foundations of contemporary economic institutions. Has the movement away from the free play of competition -- a movement which has brought mergers, combinations, monopolies and semi-monopolies, trade associations, expert combines, trade unions, cooperative marketing enterprises, tariff walls, barriers to migration, widening areas of regulated prices -- deprived the economic system of its balance wheel? Much of the current discussion of economic planning proceeds from the assumption that effective coordination of economic processes through competition is no longer possible, and that coordination through deliberate control must replace it.

In abstract form the problem cited above does not lend itself to investigation by the National Bureau, which was organized for dealing with objective facts and not with matters of opinion. Yet there are phases of this general problem which are open to objective investigation, and there are bodies of facts, as yet inadequately exploited, which may be made to illuminate the issue we have defined. We propose that Dr. Willard Thorp of the National Bureau's staff, whose studies of industrial integration have given him particular aptitude for dealing with this problem, be requested to make a survey of the general field outlined, to the end that a project or series of projects suitable for investigation by the National Bureau be defined. In view of the critical importance of work in this field we suggest that the investigations thus defined be given priority

in Dr. Thorp's program of research.

The specific projects to be recommended should aim to throw light on the general state of competition, and to provide a more adequate basis in fact for judgment as to the adequacy of competition to effect and maintain efficient, coordinated operation of the instruments of production and distribution.

4. A study of the physical volume of production in the United States, and of the flow of goods from producer to consumer.

The effects of interruptions to economic activity are brought home most concretely through variations in the actual volume of physical goods produced and of services rendered. It is estimated that the decline in the volume of industrial production in the United States between the peak of activity in June, 1929, and September, 1931, has amounted to approximately 42 per cent. Here in a single figure we have an epitome of the depression, a picture in summary of the net effect of the existence of idle capital and of idle men.

We have said that this vitally significant figure is an estimate. It is a very rough estimate indeed, for we do not possess today any comprehensive and accurate measurement of the total volume of goods produced and of services rendered in the United States. This lack of accurate knowledge of the course of production impedes economic research into all aspects of the depression and of the period of expansion which preceded the break. The seriousness of this defect has been impressed upon the members of the staff of the National Bureau during the investigation of the current depression. We propose, therefore, that the National Bureau assume responsibility for its correction.

The measurement of changes in the aggregate volume of goods produced and of services rendered is, of course, a central object in any such study. Such knowledge has an obvious bearing upon the changes in economic well-being which occur during prosperity and depression, and during longer periods of time. But there are numerous other issues in this field. In what way are we, as a nation,

investing our productive energies, and what changes have taken place in the efforts expended in different directions? In discussing the problem of savings and of capital accumulation we have stressed the importance of a knowledge of the total volume of savings in relation to the total volume of income. This problem has its counterpart on the physical side. What proportion of our total physical energies is devoted to the production of capital equipment -- steel plants, ships, railroads, agricultural machinery, etc. -- and what proportion is devoted directly to the production of consumable goods, such as shoes, bread, automobiles and clothing? What changes have occurred in recent years in the proportion of our energies devoted to these two types of production? And what changes have occurred in the absolute volume of output of goods of these two types? Our study of savings and their disposition will be strengthened if we can attack these questions from the production side, as well as from the financial side.

Again, we should greatly like to know whether there has been in recent years a heavy transference of our resources from the production of physical goods to the rendering of services. The relatively rapid growth of service industries of all types would indicate that this has been so. If so, what have been the economic consequences of this change? Have faulty adjustments (reflected, in part, in technological unemployment) developed during the stage of transition?

Studies in this field bear directly upon the possible existence of overproduction as a factor in the present depression. How rapidly did the production of goods increase during the decade of the twenties? Was the rate of advance materially greater than the rate of increase in production during pre-war years? If so, what was the effect of this rapid advance? Was the economic system adjusted to it, or did faults develop through the failure of other economic elements and processes -- of prices, perhaps, and of the flow of purchasing power to ultimate consumers -- to adapt themselves to the new order of things in the field of production?

Further, problems of productivity are involved. There is much evidence to indicate that during the ten years from 1919 to 1929 there was an unprecedented increase in the productivity of manufacturing industries and, probably, in the productivity of many agricultural and extractive industries. To what is this increased productivity attributable? If we could answer this question precisely, we might be able to assure the continuance of this advance, and to stimulate productivity in backward industries. What have been the social and economic consequences of increasing productivity? Was the jam which developed in 1929 a result of the failure to lower prices by an amount commensurate with the decline in production costs? What were the effects of increasing productivity upon the rewards of labor and upon the volume of employment?

We know little concerning the complex economic and social effects of increasing productivity. There is reason to believe that we have not learned to reap the full social advantage of the enhanced production which results from better equipment, more efficient business organization, and more skillful and more intelligent labor. We stumble over ourselves as the pace of economic progress advances, because we have not learned efficiently to utilize this new power. How this power is to be used so that general well-being may be advanced, so that the stability of economic operations may not be disturbed, so that all men may reap a fair share of its fruits-- here is one of the problems of the machine age which men have not yet solved. Greater knowledge of the actual course of production and of changes in the productivity of industry is a first requisite to any solution of this pressing social problem.

This project falls within the field of research which the National Bureau is prepared to cultivate. In conducting an investigation in this field we should seek not only to improve, augment and interpret current statistics of production, but to clarify basic concepts, to improve the historical record of physical output, and to exploit the statistical results with reference to the major social problems on which they bear.

The initiation of this project will probably require the services of an additional staff member. Dr. Thorp, Dr. Wolman and Dr. Mills have under way investigations bearing upon this problem, but it does not appear advisable that they should curtail other work in order to concentrate on this project. Their results will, of course, be available to an investigator working in this field, and they will cooperate fully in the prosecution of the project. It may, indeed, develop that this project is one which should be conducted primarily as a staff job, with all interested members of the research staff participating in the enterprise, but with direct administrative responsibility lodged in one person.

We have listed above four new research projects (or fields within which projects are to be defined) which we believe the National Bureau should undertake. Each of the new undertakings is to be directed toward the solution of a problem of major economic importance. Each will be an objective study, quantitative in character, and the results will be capable of verification by other scientific workers. In marking out specific problems for attack, and in restricting ourselves to fields within which quantitative, verifiable results are to be expected, we are not unmindful of other problems which engage public attention. Questions of control and of planning, measures of relief from the prevailing world depression, are before the public today. We recognize the importance of the general questions, and the pressing character of those having to do with immediate relief. Yet we would insist upon the necessity of further spade-work of the type to which the National Bureau was committed twelve years ago. Facts about our national wealth and income and about their distribution, facts about savings, about the sources, the volume and the apportionment of our national fund of capital, facts about competition and the limitations to competition which come with the development of industrial combinations, mergers and trade associations and with the raising of tariff barriers, facts about the fruits of our productive energies-- all these are essential to intelligent appraisal and, if the need for control arises, to intelligent control. So our emphasis, in suggesting a widening of our research

program, is upon the filling of gaps in our knowledge of the fundamental facts.

The facts to which our studies will be directed must, of course, be interpreted, must be fitted in to existing knowledge, must be related to human needs. As the program of the National Bureau has developed we have been able to round out our staff, to cover more and more effectively the major fields of economic interest. This process, which has lessened the emphasis upon facts in isolation, has made more fruitful the results secured from specific studies and has increased the significance of our aggregate contribution. The extension of activities proposed in the present memorandum will add to our staff representatives of certain important additional fields. This broadening of our resources will not only be a great aid in such general economic surveys as we may be called upon to make in the future, but will add to the efficiency of the normal operations of our research staff.