

The work of the Economic Intelligence Department

This article is one of a series covering the various departments of the Bank. [1]

The account of present arrangements is prefaced with a short history of economic and statistical work in the Bank.

Between the wars the Bank collected and published a considerable body of general economic statistics, for which responsibility has subsequently passed to the statistical offices of government departments. The Bank's more specifically economic work was on a very limited scale until some fifteen years after the Second World War. Indeed, until that time the Bank appeared positively averse to economics; and the work consisted very largely in the compilation of balance of payments statistics.

The report of the Radcliffe Committee on the Working of the Monetary System in 1959 marked the beginning of a change, which gathered momentum in the succeeding years. The Bank began to make a point of having economists on their staff, and now have many. On the statistical side, the quantity of monetary and financial data needed for policy – and computerised methods of handling them – has grown progressively. The Economic Intelligence Department was extensively reorganised this year to bring it into line with modern needs: the new arrangements are described in Part II.

Part I: The evolution of economic and statistical work at the Bank 1921 to 1939

Although statistics were collected and analysed in the Bank from the earliest days, the first formal mention of an economic or statistical unit dates from August 1921, when a very small 'Economic Section' was formed within the Chief Cashier's Office. Its task was to produce charts and tables of figures for the Governors and senior officials of the Bank; these covered, in a simple form, the real economy, the banking system and public finance, the foreign exchange market and other financial markets, the balance of payments, and comparative prices in the United Kingdom and abroad. In January 1922 the first monthly report on these matters was circulated in the Bank, and copies soon began to be sent to a number of central banks abroad. Later, memoranda on monetary or economic questions were written by the section for the Governors, and an attempt was made 'out of Bank hours' to read 'books and pamphlets on financial and economic subjects', though readers were warned not to 'become infected with the ideas or the language of an economist'. [2]

In 1925 a modest expansion of the section, by then known as the Statistical Section, was considered. 'While the conclusions [of an enlarged section] might be no different from those which would have been arrived at without the aid of the data employed, nevertheless the possession of figures and comparisons such as should be forthcoming might assist in furnishing arguments to support such conclusions.' One form of expansion examined was the employment of an economist; but it was difficult to decide on the right man. 'He should be fully qualified, as far as degrees etc. indicate; must not be a crank, and must have the gift of applying economics to practical affairs. A man chosen from the Cambridge School, if under the influence of Mr Keynes, might perhaps have acquired this desirable aptitude; but if he had also followed this Economist in his progressive decline and fall, dating from the "Tract on Monetary Reform", he would be worse than useless.' [3]

[1] Earlier articles were published in the following issues of the *Bulletin*: see, in particular: 'The Bank of England as registrar', March 1963, page 22, and September 1968, page 262; 'Branches of the Bank of England', December 1963, page 279; 'The overseas work of the Bank of England', December 1967, page 374; and 'The work of the Cashier's Department', September 1970, page 285.

[2] All quotations come from internal memoranda.

[3] The Bank's view subsequently changed: Keynes was a director of the Bank from October 1941 till his death in April 1946.

In fact no early appointment was made, and there was only a very small immediate strengthening of the section itself.

The section was thereafter gradually enlarged, from a regular staff of some three or four in 1926 to around a dozen in 1932 (though one of the more promising recruits had by then 'found the Church of England more attractive than the Bank of England'). The regular output of the section increased correspondingly. In 1926, the charts then supplied to the Court of the Bank were replaced by a typewritten *Statistical Summary*, giving the leading financial, trade, and employment figures on a single page, and by January 1927 this document had become a four-page printed summary which was circulated both within the Bank and also to those banks abroad which had previously received the monthly report. In 1928, after the appointment of Dr Stewart from the Federal Reserve Board as economic adviser to the Bank, [1] the *Statistical Summary* was substantially enlarged, and in 1930 copies were circulated to certain government departments. In 1932, following a recommendation of the Macmillan Committee on Finance and Industry, the *Summary* was made available to the general public. It dealt, in what was then an increasingly sophisticated way, with all the subjects with which the section was concerned in its earliest days. The section also produced an increasing number of ad hoc reports. The standards prevailing at that time may be judged by the requirement that 'each member of the staff should be able to produce an occasional essay suitable for publication in, say, the *Economic Journal*, the *Journal of the Royal Statistical Society*, or *The Economist*'; and it was claimed that most of the staff of the section were – if not individually, at least in collaboration – already capable of such a task. Three or four contributions of this kind had appeared anonymously in *The Economist*. Connexions were also strengthened with central banks abroad, and in 1928 the section was represented at a conference of central bank statisticians in Paris.

One feature of these early days which has continued virtually ever since was the integration of economics and statistics in the Bank, both kinds of work being done in the same section. A second was the closeness of the link between the section and the operational part of the Bank, both then being the responsibility of the Chief Cashier. A third was the link between the Statistical Section and the so-called Central Banks Section, which was responsible for the study of overseas countries and which was then also under the Chief Cashier. This last link, between home and overseas studies, was loosened when a separate Overseas Department was set up in 1932. [2] These three aspects of organisation have been at issue on many occasions since this time, with varying decisions. As will be seen, there has also been a separate debate over the naming of the organisation responsible for the economic and statistical work of the Bank, again with varying decisions.

The section was strengthened in the summer of 1933 with the arrival of a Cambridge economist, H. C. B. Mynors. [3] His arrival coincided with a considerable expansion of work. The Macmillan Committee had recommended improvements in many other fields besides the *Statistical Summary*. For example, statistics of foreign balances were now collected regularly, and increasing attention was paid to exchange movements and the balance of payments. Regular studies of the national debt were being undertaken too. Pioneer work was also done with retail trade statistics, and the existing official index of retail prices was improved. A number of special studies were commissioned, for example on 'the extent of the seasonal strains on the exchanges', or 'the effect of a public works programme on credit and prices'. Professor Clay, [4]

[1] Dr Walter W. Stewart was economic adviser to four American presidents. He died in March 1958. 'It was his habit of mind always to try to measure up the measurable factors in a problem before he tried to find a solution.'

[2] See footnote [1] on previous page.

[3] Later Sir Humphrey Mynors, Deputy Governor of the Bank from 1954 to 1964.

[4] Sir Henry Clay (1883-1954) became an economic adviser to the Governors in 1933, and remained with the Bank until his retirement in 1944, when he returned to the academic world. His biography of Lord Norman was published in 1957.

whether or not an unbiased judge, thought at the time that the work of the section was as good of its kind as anything that was being done by any government department or university. In the summer of 1934 the Principal of the section, J. A. C. Osborne, became Secretary of the Bank, and it was thought convenient to transfer the section, by then the 'Economics and Statistics Section', from the Cashier's Department to the then Secretary's Department.

The section was still in the Secretary's Department when the war came in 1939. By then the staff had risen to around twenty-five. The work remained part compilation and part analysis. The range had not widened greatly, but the volume had risen. The section answered an increasing number of questions from within the Bank, from government departments, from other banks and individuals at home, and from central banks abroad. The monthly *Statistical Summary* had an outside circulation of around 1,700, compared with about 450 when it was first offered to the public in 1932.

1939 to 1959

The war brought a reduction in the work and in the staff of the Economics and Statistics Section. For example, the *Statistical Summary* was greatly shortened (partly because many statistical series were discontinued, or withheld for reasons of security), and many fewer copies were circulated. At the same time, government departments built up their own statistical services, so that it became less necessary than hitherto for the Bank to compile and develop statistics of a non-financial character.

But although the Economics and Statistics Section shrank after 1939, two new statistical units grew up in the Bank. The first was the Foreign Exchange Statistics Office, an adjunct of the newly-established exchange control. The office was responsible for analysing the large mass of information which became available through the UK control and similar controls in overseas sterling countries. For example, banks had to report on separate forms every disbursement of foreign exchange and every transfer of sterling to non-residents. In 1940 some 50,000 forms a month were received and analysed by purpose of payment and by residence of transferee. Gold and foreign currency assets had to be aggregated regularly, as had sterling liabilities to overseas holders.

The second new unit was the 'Exchange Economy Section', an adjunct of the Overseas and Foreign Office. This section was responsible for forecasting the UK balance of payments with overseas countries, particularly the United States and Canada, in order to determine how the country's limited foreign exchange assets could best be deployed. Its links with the Overseas and Foreign Office provided useful knowledge about the overseas countries examined, but its separation from the Foreign Exchange Statistics Office, which was the source of nearly all the raw material, and from the Economics and Statistics Section, where all the earlier knowledge of balance of payments technique had developed, led to duplication of records and effort, with final results which were unsatisfactory.

Accordingly, in March 1942 the three units were combined in a new Statistics Office: a staff of nineteen came from the Economics and Statistics Section, a staff of twenty-seven from the Foreign Exchange Statistics Office, and a staff of seven from the Exchange Economy Section. The bulk of the work of the new organisation was to be on 'exchange', but departmental responsibility was assigned to the Secretary, as it had been for the Economics and Statistics Section. One separate advantage adduced for the reorganisation was the 'abolition of the absurd name "Economics and Statistics" '.

The new organisation remained essentially unchanged until 1959. As explained later, its original bias towards overseas finance quickly became more pronounced. In 1944 some forty members of the office

were concerned with balance of payments statistics and only some fifteen with domestic developments; by 1950 the corresponding numbers had become about a hundred and about ten. The balance began to change only in the late 1950s.

The first process in the balance of payments work of the office was the analysis of exchange control information and the collecting of figures of foreign assets and sterling liabilities; these tasks absorbed more than fifty people throughout the 1950s. The material so prepared was combined with other information. For instance, the trade accounts were used for imports from sterling area countries, or for exports to all parts of the world. Thereafter, balance of payments estimates were produced. In the early years, estimates for each foreign country were compiled separately; later, as sterling became more easily transferable, countries were grouped together as appropriate. The various detailed estimates were forwarded to the Treasury and to the Central Statistical Office, and global estimates were published in the half-yearly White Paper on the balance of payments.^[1] Figures were also provided to the International Monetary Fund, and unpublished forecasts were prepared for government use and discussed between the Bank and Whitehall. The various estimates covered not only the United Kingdom's own balance of payments but also the balance of payments of overseas sterling countries with the rest of the world.

Fewer resources were devoted to domestic matters in the 1950s than in the 1930s. This was partly because of the competing demands of the balance of payments and partly because some of the work previously done in the Bank was now handled by government departments. In particular, the Bank's *Statistical Summary* ceased publication at the end of 1945; instead, the Central Statistical Office published its *Monthly Digest of Statistics* from the beginning of 1946, containing all the essential series previously published by the Bank and adding a number of new ones. Secondly, after 1947 the Bank handed over responsibility for the retail trade statistics to the then Board of Trade, though statistics of wholesale trade in textiles, first collected by the Bank in 1935, were aggregated right up to 1958. The small Home Finance Group in the office remained responsible for analysing the comparatively few series of banking statistics then available, together with the weekly Exchequer figures and similar material; for compiling statistics of capital issues and security yields; and for forwarding such financial statistics to Whitehall, to central banks abroad, and to the International Monetary Fund. In 1951 the group started a monthly report on industry for the Court of Directors and senior officials of the Bank. The report regularly discussed the latest information about output, employment, incomes, and prices; and examined other topics as the need arose. But the emphasis in the report, as in nearly all other work of the office at this time, was on statistical description, rather than economic analysis or research.

The appointment of the Radcliffe Committee on the Working of the Monetary System in 1957 led to a review of the economic and statistical work of the Bank. The Statistics Office had found difficulty in providing the resources to meet the committee's requests for information, and looked likely to be at even more of a disadvantage when the recommendations of the committee began to take shape. The report, published in August 1959, in fact asked that more financial statistics should be collected (at least partly by the Bank), that there should be more research into monetary matters, and that there should be more public exposition by the Bank. By this time, plans had been drawn up to reorganise and strengthen the parts of the Bank concerned with these matters. A primary need was to augment the resources on the home side of the Statistics Office. There was also a wish to preserve the links with the balance of payments side of the office, and to build up contacts both with those doing similar work in the Overseas

[1] The first White Paper (Cmd. 7324), relating to 1946, was published in 1948.

Department and with those in the Cashier's Department who were responsible for the Bank's main operations. Various schemes of organisation were considered, including the transfer of the whole of the Statistics Office to the Cashier's Department, but it was finally thought best to set up a completely new department, combining the Statistics Office with the Overseas Department. The choice of a name proved difficult, but 'Central Banking Information Department' was finally selected: though cumbersome, this title gave offence to none while bearing a suitably outward flavour for the post-Radcliffe age.

1959 to 1964

The new department began work in October 1959. It was divided into four offices. The first, the Overseas Office, consisted of some eighty people from the former Overseas Department. The second, the General Office, contained a handful of economists and other specialists, together with the usual administrative services. This office was to be responsible for studies of a more economic character, which were prepared for Bank use, and also for launching any new journal which the Bank might decide to issue in the light of the Radcliffe Report. The other two offices were the Home Intelligence Office, incorporating the home side of the old Statistics Office, and the Balance of Payments Office, incorporating the external side.

The new organisation lasted until March 1964. The main development was in the Home Intelligence Office, which grew from a staff of less than twenty in the closing months of 1959 to nearly seventy, four years later. Following the Radcliffe Report — as following the Macmillan — many more statistics were collected from banks and other financial institutions, and there was much more study and analysis, both of domestic financial developments and of the real economy. A start was made on flow of funds analysis.

The staff of the Balance of Payments Office remained at around a hundred throughout the period. Responsibility for compiling the official balance of payments estimates passed from the Bank to the Central Statistical Office in 1960, partly because by then the estimates were drawn much less from exchange control sources and much more from inquiries undertaken by government departments. When the transfer was made, the Balance of Payments Office was reorganised by subject — trade, invisibles, oil transactions, and so on — instead of by geographical groups. The changes did not lead to a fall in numbers, partly because the Bank remained the prime source for some of the raw data, such as the sterling holdings of overseas countries and the foreign currency assets and liabilities of London banks, and partly because other work was begun. For instance, a new commodities group was set up in 1961, and an energy group (including oil) in 1963.

The specialised staff of the General Office increased, thanks partly to a few special (older) recruits from outside the Bank, but the total numbers did not exceed a dozen. The Bank's *Quarterly Bulletin*, first published in December 1960, took up most of the time of this small group, but other studies were undertaken too. These usually covered the work of more than one office or department, or were too long-ranging to be conveniently handled by the office to which the particular subject normally fell.

The new department, although an improvement in many ways, proved too large to be conveniently controlled. It also continued the bias towards overseas finance, whereas domestic developments needed increasing attention. Finally, the office arrangement was not ideal, because it tended to create barriers between the different parts of the department (in rather the same way as between the different statistical organisations in the early years of the war). For these reasons, the Central Banking Information Department was abolished in February 1964 and its work divided between a reconstituted Overseas Department and a new Economic Intelligence Department.

1964 to May 1976

The Economic Intelligence Department absorbed the staff and functions of the Home Intelligence and Balance of Payments Offices, together with the economists and other specialists from the General Office. It was required to provide information 'about the developments, actual and prospective, in the balance of payments of the United Kingdom and the Commonwealth and the factors affecting the evolution of the United Kingdom's own economy, looked at in its widest sense'; to develop techniques of economic and financial analyses and statistics; and finally to prepare and publish the Bank's *Quarterly Bulletin* and *Annual Report*. It had a particular duty to the executive director specially concerned with economic and statistical services, a new responsibility established at this time.[1]

The new department began with a staff of around 180. It was organised into divisions, rather than the more formal 'offices', with most of the divisions subdivided into groups. With one substantial change, this organisation continued until May 1976.

The substantial change came in March 1970. A national economy division of the department had been formed in 1964, consisting of an Industry Group (from the Home Intelligence Office) and a General Studies Group. The latter incorporated all the General Office apart from administrative services, and thus continued to be responsible both for the *Bulletin* and for the more sophisticated economic studies undertaken by that office. In 1965 the section dealing with flow of funds analysis, which was being developed mainly for financial forecasting, was also transferred to the General Studies Group. It later became clear that bringing the research functions closer to other forms of economic and statistical work — as had been done with the abolition of the General Office in 1964 — had drawbacks as well as benefits. In particular, longer-term research tended to be put aside for more urgent tasks, like preparing the *Bulletin*. A partial step back to the former General Office was therefore taken, and an Economic Section was set up in 1970. It consisted of the old General Studies Group (less the Bulletin Section) plus the Mathematical Techniques Group, hitherto a separate unit in the department. Its primary functions were 'to provide economic appraisals and conduct economic studies which have a bearing on the choice of official policies and operational strategy, and to undertake longer-term research on the working of the monetary system and other topics of concern to the Bank'. It was to remain administratively with the Economic Intelligence Department, but to have an independent role at the same time.

By 1975 the need was felt for further change. The statistical output had grown, partly with the greater use of computers and partly with the development of banking figures, culminating in a complete reorganisation and expansion of returns in 1975; this work was, however, dispersed throughout the department. The economic output had expanded too, and considerably more economists had been recruited, almost exclusively for the Economic Section; this increased the danger of overlap between the section and the rest of the department. At the same time, it was also considered that the role which the department was expected to play, and its relations with other parts of the Bank, needed to be redefined. For these various reasons, an internal review of the whole department (including the Economic Section) was undertaken during 1975. A reorganisation of the department followed in May 1976.

Part II: The present organisation of the department

Under the present organisation, the department is formally given responsibility for providing advice on domestic and external financial

[1] W. M. Allen held this position from 1964 to 1970; he was succeeded by C. W. McMahon, who was himself succeeded by J. C. R. Dow in 1973.

matters and on questions of general economic management. It is required to identify policy problems before they become immediate issues; and to investigate the consequences of the Bank's actions on monetary and financial conditions, and the relationship between these conditions and the real economy. It is also responsible for providing a service of statistical information and interpretation for the rest of the Bank, for the Government, and for the general public; and for informing the general public, through the *Quarterly Bulletin*, about the Bank's policies and the setting against which they were determined.

To discharge such responsibilities, the department clearly needs to be expert in a field ranging from statistics to economic analysis, forecasting, and research.

The department's total staff is now around 250, of whom over one third entered with first or second degrees, [1] less than one third with 'A' levels and the remainder with 'O' levels. The most common degree course is economics, followed, at a distance, by mathematics and then by a range of arts and other sciences. Nearly all the staff are career employees, but a small number of economists with special qualifications are on contract for a period of years, which may in some cases be a break between periods of university teaching.

The organisation which was established in May to meet the various objectives mentioned above is shown in broad outline in the diagram at the end. There are important connexions between the various divisions and subdivisions; for example, the external statistics side of the Financial Statistics Division works closely with the external policy side of the Economics Division, and similarly domestic statistics with Monetary Policy, and economic and fiscal policy with the Industrial Finance Unit.

The first grouping shown is the *Financial Statistics Division*, the largest division in the department. It collects and aggregates data from over 300 banks and discount houses, both for statistical and other purposes, and it assembles other financial data from other institutions, for instance on capital markets and government financing. The division also compiles figures of the money stock and domestic credit, and prepares the flow of funds accounts. It provides aggregated statistics to other parts of the Bank, to government departments, to international statistical organisations, and for publication; and supplies more detailed figures to Bank officials concerned with credit control, exchange control, and bank supervision. The division also provides analyses and commentaries on the wide range of statistics with which it deals. In collecting and publishing statistics, the division works in close association with the Government's Central Statistical Office.

There are two main operational units in the division. One is primarily concerned with external statistics. This unit collects and analyses regular returns of the foreign currency assets and liabilities of banks and certain other institutions in the United Kingdom, giving details both by currency and by overseas country. It collects similar information about the sterling holdings of non-residents and sterling claims upon them. An article in the June 1975 *Bulletin* described the two sets of statistics – foreign currency and sterling – in some detail. The statistics provide a foundation for studies of, for example, the euro-dollar market and the deployment of the surpluses of the oil-exporting countries. The external unit is also responsible for many statistics of overseas investment and prepares the annual *Bulletin* article on the United Kingdom's external assets and liabilities. Its work naturally keeps it in close touch with the Overseas Department, the foreign exchange operations of the Cashier's Department, the Exchange Control Department and other central banks.

The other main operational unit handles domestic statistics and so has close ties with the domestic operations of the Cashier's Department and

[1] Forty years earlier, a senior official could write: 'I am inclined to expect people to be spoilt for our purposes by three or four years at the University'.

with the Treasury. It is responsible for the collection and interpretation of all banking statistics other than those mentioned above. As explained in the June 1975 *Bulletin*, these include a detailed breakdown of total assets and liabilities in banks' balance sheets – both by type of asset and liability and by sector of the debtor or creditor – and an analysis of bank advances by industrial grouping. The unit also calculates, for purposes of credit control, individual banks' reserve ratios, their liability for payment of special deposits and, when relevant, supplementary special deposits. It is also responsible for statistics of money supply and domestic credit. Another part of the unit is concerned with capital markets and government finance. It collects statistics of, among other things, capital issues, prices and yields of securities, turnover on the stock exchange, and the transactions and holdings of investment trusts and unit trusts. The unit collaborates closely with the Treasury in preparing central government financing statistics and is the main source for information on transactions in government debt; it also prepares the annual articles on the national debt in this quarter's issue of the *Bulletin*. For convenience, the domestic unit also handles the sector finance (or flow of funds) accounts. Regular statistics are prepared for the transactions of the six sectors into which the economy is customarily divided, and balance sheets of the assets and liabilities of financial institutions are also compiled, to complement the estimates of transactions.

These two operational units are supported by two specialised groups. One, Mathematical Techniques (first set up in 1964), contains mathematicians and statisticians who provide a service for other parts of the division and for the Bank as a whole. One aspect of its work is the seasonal adjustment of time series; [1] others are the measurement of relations between economic and financial time series, and curve-fitting – in particular for gilt-edged yields. [2] This entails writing computer programs and adapting these programs to run in conjunction with the time series database, which is described below.

The second supporting group, Computer Services, houses the Systems Control Centre which co-ordinates all computer activities in the Economic Intelligence Department and which is in constant touch with the Bank's central computer operations run by the Administration Department. The centre has attached to it a Chart Group, which provides a Bank-wide service of chart drawing, although at present only limited graphic facilities are available on the computer.

The department's computer operations are organised around a central data base. This is in two parts. One part accommodates the detailed statistics collected from banks and some other institutions, and is used for compiling aggregates, especially for current periods. The other part houses financial and economic data in time series form. The data come partly from the first part of the data base and partly from outside institutions, like the Central Statistical Office and the Organisation for Economic Co-operation and Development (OECD). Data may be viewed, extracted or used in mathematical processing at various points throughout the department.

The main processing facilities are still being developed jointly by the Economic Intelligence Department and by the Administration Department. Research studies, including the Bank's econometric model (described later), which are the Economic Intelligence Department's own responsibility, are gradually being linked to the main system.

The *Economics Division* is divided into three parts, all concerned with UK policy – a monetary, an external, and an economic and fiscal. The three parts work closely with each other. At the same time, each has direct links with, and direct responsibilities towards, other parts of the Bank, in the same way as the Financial Statistics Division.

[1] See, for example, *An introduction to flow of funds accounting: 1952–70, Part 3* (Bank of England, 1972).

[2] See articles in the December 1972, September 1973 and June 1976 issues of the *Bulletin*.

The monetary side of the Economics Division is concerned with all aspects of domestic monetary and financial policy. Studies may be made into, for example, the case for, and the likely consequences of, a change in interest rates or a change in the controls over the banks and discount houses; or into the advantages and disadvantages of various debt instruments. Detailed forecasts of the financial position of the various sectors of the economy are made regularly, and otherwise in case of need; and the likely course of money supply and domestic credit is estimated. This part of the Economics Division also analyses the behaviour of other financial institutions – insurance companies and pension funds, investment and unit trusts, and building societies, savings banks and finance houses. Information about the property market is also collected here, in co-operation with other parts of the Bank.

On the external side, a number of people are concerned with the balance of payments generally. Regular reports are prepared on the latest developments, and much time is also given to analysis of, and research into, matters which relate to balance of payments forecasting and policy. Recent examples include an econometric investigation into the influences on certain capital flows, and a detailed analysis of various ways of assessing price-competitiveness.

There are also three specialised groups concerned with particular aspects of external policy. One group studies invisible income and expenditure. It collects a small amount of basic data, but relies mostly on secondary material. This group also provides a secretariat for the Committee on Invisible Exports, a joint government and private sector body established in February 1968 to promote invisible earnings. A second specialised group deals with oil. Working with the Department of Energy, its prime task is to compile statistics of the oil components of the balance of payments, drawing on returns from the oil companies and from a variety of other sources, and to forecast these items. This leads on to a range of analytical work, often in conjunction with government departments, such as forecasts into the consequences of North Sea oil for the balance of payments as a whole and for the financial system. The third group, for commodities, also has a statistical side: an index of commodity prices is prepared monthly, and from time to time estimates of the invisible earnings of commodity markets are put together. The emphasis of the group's work has, however, become increasingly economic; for example, more attention is being paid to the analysis and forecasting of commodity prices, and thus to the forecasting of import prices as a whole. The economic work is supported by direct knowledge of markets themselves.

The third main component of the Economics Division handles economic and fiscal policy. It provides a wide range of reports on the real economy – on output and demand, on the labour market, on prices. A small number of people specialise in different aspects of the real economy, the work being in principle allocated by the sector of the economy primarily affected – public sector, companies, or persons.

This part of the Economics Division is responsible for the Bank's economic forecasts. These are prepared with the help of an econometric model, developed first by the London Business School, which now uses some 300 equations, including identities. At present, monetary variables play a minor role, but efforts are being made to improve the linkages between the model's real and financial properties. Other sections of the department, besides those directly concerned, contribute to the forecasting work, since their knowledge of particular fields allows them to assist in the model's specification and to judge the plausibility of its output, and if necessary to suggest modifications. To supplement the short-term forecasts, work has begun on a small model to help with medium-term (five-year) projections.

There is no separate research unit in the department, but resources are regularly set aside throughout the Economics Division for

longer-term studies. The results of such studies are frequently published in the *Bulletin* [1] or, from time to time, elsewhere. [2]

The *Industrial Finance Unit* is a separate part of the department, much smaller than either of the main divisions. It shares with the Economics Division a general duty to study developments in the real economy and is closely concerned with developments in company finance. More specifically, though, the unit co-ordinates the industrial liaison work of the Bank. The Agents at the branches provide a regular and systematic flow of information and arrange visits to industry in their areas by directors and senior officials from London. Senior officials of the unit also keep in close touch with the headquarters of large companies in the London area and with industry and agriculture in East Anglia and South-East England (where the Bank have no branch). As a result, the unit is able to provide information and advice to other parts of the Bank about industrial developments generally.

From the information gained in this way and through special studies, the unit has a wide knowledge of the position of individual sectors and companies. Where the information suggests that there is a financial or structural problem, the unit seeks to make contact with the industries or institutions concerned. Much of this work is confidential.

The unit provided the secretariat of the City committee which led to the formation of Equity Capital for Industry Limited; provides, jointly with the National Economic Development Office, the secretariat of the NEDC Committee on Finance for Investment; and keeps in touch with Whitehall on matters affecting company finance, such as the follow-up to the Sandilands Report.

Besides the normal duties of any central administrative unit, *Departmental Services* have one special responsibility. This is to edit and produce the *Quarterly Bulletin* and the Bank's *Annual Report and accounts*, and any associated publications issued by the Bank, such as the *Statistical Abstract* [3] and *An introduction to flow of funds accounting: 1952-70*. The circulation of the *Bulletin* has grown from around 2,000 when it was first issued at the end of 1960 to around 15,500 today.

It remains to describe briefly the department's outside links. The connexions with the Governors, directors and senior officials in other departments of the Bank have already been touched on, as has the relationship with the Central Statistical Office. There are many and frequent contacts with the Treasury and, to a lesser extent, with other government departments over forecasts and studies of financial developments, the balance of payments and the real economy.

There are also close contacts with the private sector. Visits to industry have already been mentioned. Meetings are held frequently with representatives of the clearing banks and the accepting houses and other financial institutions, particularly the building societies and finance houses.

Although the main point of contact with central banks and official institutions abroad is naturally the Overseas Department, the Economic Intelligence Department has its own overseas links; for example, members of the department from both the statistical and economic divisions frequently attend meetings of the European Economic

[1] Recent examples include:

Graham Hacche: 'The demand for money in the United Kingdom: experience since 1971', September 1974.

J. S. Flemming, L. D. D. Price and D. H. A. Ingram: 'Trends in company profitability', March 1976.

J. C. Townend: 'The personal saving ratio', March 1976.

[2] Recent examples include:

M. H. Miller: 'Competition and Credit Control and the Open Economy'. *The Manchester School of Economic and Social Studies*, March 1973.

David Williams, C. A. E. Goodhart and D. H. Gowland: 'Money, Income and Causality: the UK Experience'. *American Economic Review*, June 1976.

[3] Two issues cover the years from 1945 to end-1974 or, where financial years are more appropriate, to March 1975: the first issue continues to end-1969. Details of how those publications can be obtained are given on the reverse of the contents page for this *Bulletin*.

Community in Brussels or Luxembourg, or of the OECD in Paris, or of the Bank for International Settlements in Basle.

Care has been taken in recent years to strengthen connexions with universities, and not only by taking in university staff for periods of time. Members of the department attend a wide range of academic seminars and conferences, such as those organised by the Association of University Teachers of Economics or by the Money Study Group, or overseas meetings of the Econometric Society. Others are active members of professional bodies like the Royal Economic Society, the Royal Statistical Society, the Society of Business Economists, the Society for Long Range Planning, and the Society of Investment Analysts.

Outside links are strengthened by secondments of staff, usually from the Bank but occasionally in the other direction. Thus, staff from the department are working, or have worked, for a period in the Treasury and other government departments, or with central banks or other institutions abroad; and one has worked as a university lecturer. Another way in which the Bank strengthen the department's university contacts is by financing a period of full-time study for a small number of its more promising younger people who wish to acquire a second degree in economics or some other relevant additional qualification.

Lastly, the department seeks to discharge a responsibility to the general public by providing material to the newspapers through the Press Office, by publishing the *Bulletin*, and by acceding, as far as resources permit, to requests for information.

