

Working as a Research Economist at the Federal Reserve Bank of Philadelphia

—by Loretta J. Mester




I have been an economist at the Philadelphia Fed for about 20 years, and am now the director of research, which entails running the research department and serving as the chief economic advisor to the Bank's President. When we went on the market, my husband, George Mailath, also an economist, and I faced a joint location problem. His offer from the University of Pennsylvania and mine from the Philadelphia Fed appeared to be the best outcome, so we accepted these offers and came to Philadelphia. At the time, coming out of Princeton, the Philadelphia Fed was not considered a top placement—there was a bias toward wanting students to opt for positions in academia. However, it turned out to be a very fortuitous choice. I have found the Philadelphia Fed to be a productive place to get research done and I also like the public service aspect of the job.

A new Ph.D. hired by the Philadelphia Fed enjoys the benefits of a high level of resources, excellent colleagues, exposure to new ideas, interaction with academia, and a large amount of time for research. Indeed, research time at the Philadelphia Fed surpasses that which a new Ph.D. would get at most academic departments, where teaching loads can be quite high. A major job of economists in their first year at the Philadelphia Fed is to establish their research agendas, so the responsibilities one has in addition to research are kept to a minimum. Under my tenure at the Philadelphia Fed, we have used the term "research" to mean the same thing as is meant in academia—research on self-chosen topics rather than directed research. That's not to say that an economist won't be asked to provide analyses of important economic issues to senior management, but we would try to arrange assignments so that work on those requests does not come from the economist's research time. In steady state, economists at the Philadelphia Fed can expect half to three-quarters of their time for work on their research agendas. They spend the other part of their time briefing senior management before FOMC meetings or on other policy

issues; writing articles for the Bank's own publication, the *Business Review*; and giving an occasional presentation to business or community groups. Importantly, we try to arrange this work so economists know far in advance when they will be responsible for these tasks, similar to the way academics know their teaching schedules in advance. This is important because uninterrupted time is a necessary (though not sufficient) ingredient to the creative research process.

The Philadelphia Fed finds this structure conducive to its mission. At the hiring decision we select people who are interested in topics of interest to the Fed. This does not mean only monetary and macroeconomics—most of the Reserve Banks, including the Philadelphia Fed, are interested in microeconomics (including local public finance, regional and urban economics, and labor economics), and banking and finance. All of these areas are relevant to the policy work of the Fed, which includes monetary policy, financial system stability and bank regulation, and payments. While the size of the department, at 20 Ph.D.s is somewhat smaller than many university departments, we are more focused on specific fields; therefore economists are more likely to find colleagues with similar interests at the Fed than they are at comparably sized academic departments. I have found the department to be a nurturing environment, with colleagues rooting for one another's success rather than competing with one another. The Fed benefits by having a staff of researchers working at the frontiers of their respective areas who can bring their expertise to bear on policy issues. Also, having staff economists who have proven themselves on the same playing field as others in the economics profession, as evidenced by publishing in the top academic journals, adds to the credibility of the Fed's policymaking. The Federal Reserve System's emphasis on research has increased since I joined the Fed. Back then, while the opportunity for doing good research existed if one wanted to take advantage of it, one could also succeed in the department by focusing more on policy work or taking on other directed research projects. This is not the case today. Engagement in the economics profession including publication is an important part of the job.

The Philadelphia Fed recognizes that it takes real resources to support high-quality research, and these resources are



very competitive with those offered by top academic institutions. There is funding for computing, software, data, library resources, and journal submission fees. Because the Fed computer system must maintain the highest level of security, it is less accessible off-site than typical university computing systems; however, as telecommuting and traveling have become common, remote access has become easier. Economists have access to well-qualified research assistants. Many of these RAs have MAs in economics or are planning to go on to graduate school in economics. Economists are encouraged to present their papers at conferences, since this is a good way to get feedback on their work and to publicize their research to potential referees (which helps garner journal acceptances). At the Philadelphia Fed we also make available funds to bring co-authors to the Fed, and we have a visiting scholar program that allows for interaction between staff economists and leading and/or up-and-coming scholars in the profession. Several co-authorships have developed between Fed economists and our visitors. We are also able to take advantage of our proximity to University of Pennsylvania, and our economists are encouraged to attend seminars there. In addition, funds are available for economists who would like to organize a conference or workshop on a particular topic. An economist would find that the funds available for research support at the Philadelphia Fed are as generous as the research support available in the top 10 to 15 departments.

So what's the downside? Within a research university, every department has the same goal—to produce well-respected research in the field and to convey those ideas to students. Publish or perish and the drive for tenure keep everyone well motivated at the university. Within a Reserve Bank, different departments in the Bank have different objectives and the senior management of the Bank sometimes has to be educated regarding the Research Department's mission and its measures of success. Moreover, because the cap T of the tenure clock is not looming, economists need to be somewhat more self-motivated in getting their research out and becoming engaged in the profession. Indeed, an economist who came to the Fed today and viewed it as a 9 to 5 job would be completely wrong. To be successful here, one must publish. On the other hand, because the tight time constraint of the tenure clock is not binding, researchers who get off to a slightly slower start but then pick up their productivity will find more forgiveness at the Fed than at the university.

Another difference between the Fed and universities is that we typically do not teach Ph.D. students at the Fed, whereas teaching and helping to guide the research of such students is one of the benefits of an academic job. I said typically because many of us have served on Ph.D. committees

—sometimes for RAs who are working on their dissertations and sometimes for students we have met at conferences. So this opportunity exists for entrepreneurial economists at the Fed. In addition, given our location, we have opportunities to teach at area universities; e.g., I am an adjunct professor at the University of Pennsylvania's Wharton School and others in the department have taught or are currently teaching at Wharton, Villanova, Temple, Penn, Swarthmore, and Bryn Mawr. Teaching must be done on an economist's own time, but schedules are flexible enough to accommodate it. I do have to admit that our schedules are not as flexible as in academia, despite telecommuting and generous vacation allotments.

Finally, some economists may find the non-research parts of the job—policy work and writing non-technical articles for our *Business Review*—to be onerous. To mitigate this possibility, we try to hire economists who have an interest in policy issues; who enjoy applying economic theory, modeling, and empirical work to important policy questions; and who have a taste for public service. In fact, when things are working well, research not only informs policy, but policy informs research. This happened with my own research agenda as I learned more about financial intermediation and was exposed to interesting problems and questions regarding the financial system.

Within the Philadelphia Fed there are now two avenues for advancement for economists. Economists who progress with their research agenda and policy work can eventually take on the managerial responsibilities of running a section of the department or the department itself. This was the path that was available to me. Within the past six years, however, we have established another path for advancement: a research track in which outstanding researchers can advance to the same level in terms of salary and benefits as someone with managerial duties, but without having to take on the heavier burdens of administration.

Because of the Philadelphia Fed's emphasis on academic-style research, economists here who advance their research agendas are attractive to the academic market. Economists have moved from the Fed to academia, and others have moved from academia to the Fed. In fact, because the support is so good, economists are likely to find that they can advance their research agendas more quickly at the Philadelphia Fed than at academic departments that do not offer much teaching relief in the initial years. I have received several offers over the years from academic departments. While these offers have been tempting, in the end, I opted to stay at the Philadelphia Fed because of the quality of life and the mix of research, policy, and public service.