

## NEWS RELEASE

# FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D. C. 20429

Telephone: 393-8400  
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FOR RELEASE AT 2 P.M., WEDNESDAY, MAY 20, 1964

PR-41-64 (5-14-64)

A reserve corps of experts in the field of political economy, trained and able to blend the economic needs of the nation with political realities, was called for today by Joseph W. Barr, Chairman of the Federal Deposit Insurance Corporation.

Addressing the Seventh Annual Loeb Awards Luncheon at the Savoy-Hilton Hotel in New York City, Mr. Barr urged that such a reserve be created by the agency he heads, suggesting that FDIC devote a substantial sum annually for such a training program. Mr. Barr suggested that the group be of an "extraordinary" nature "prepared to serve the nation in areas of high national and international financial and economic policy."

The FDIC chairman said, "I would like to see trained, at the graduate level, up to five people each year for a four-year period, or so long as they show promise. After the completion of their formal studies, these men and women would continue their training in the Federal Government for an additional four years. I envisage a program that would rotate them through our Corporation and the Office of the Comptroller of the Currency, the Treasury, the Council of Economic Advisers, the Federal Reserve System, the Bureau of the Budget, the Department of State, and appropriate Congressional Committees -- to illustrate the scope of the training."

(more)

Mr. Barr added, "After the expiration of their four-year term of duty, these men and women would be subject to an additional call for a four-year term of service during their lifetime at the request of the President of the United States. I do not expect," he continued, "or even want, all the people in the corps to remain with the Government. Some of them will return to the academic community, some will enter business or finance, some may prefer Government, some may serve in the labor movement, and, hopefully, some will develop into Democrats and others into Republicans. But this corps will be available as a ready reserve for any future President of either party who needs it."

He added, "I do believe that, at this juncture of our history, the nation badly needs a reservoir of trained men and women who can move with assurance in the world of economic ideas and in the world of political reality while understanding the problems of both."

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POLITICAL ECONOMY -- THE NEED FOR A NEW LOOK

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION  
Washington, D. C.

at the

SEVENTH ANNUAL LOEB AWARDS PRESENTATION LUNCHEON

Savoy-Hilton

New York, New York

Wednesday, May 20, 1964

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2:00 P.M., WEDNESDAY, MAY 20, 1964

POLITICAL ECONOMY -- THE NEED FOR A NEW LOOK

Last year about this time a group of young men working toward the doctoral degree in Political Science came to visit with me in the United States Treasury. The purpose of their visit was to discuss the Administration's plans for getting the Tax Bill passed. I launched into an enthusiastic analysis of the bill and described its potential impact on the nation. I told them what we hoped to achieve with this legislation in the areas of employment and investment, its effect on fiscal policy, and finally how it fitted into our continuing battle with balance of payments problems.

When I got to balance of payments, one of the group interrupted to say that he and his colleagues were having difficulties understanding my arguments because they had no background in economics, and would I please confine myself to a description of the political and legislative devices we planned to employ with the Congress.

I must say I was outraged at this suggestion -- for no one can work an \$11 billion tax cut through the Congress of the United States by political or legislative chicanery. Admittedly, we in the Treasury and the legislative people in the White House had our plans and techniques, but they were relatively uncomplicated and singularly lacking in drama. They consisted primarily of methods of mobilizing the support then latent in the labor movement, in the industrial and financial communities, and in academic circles -- and then translating this support into votes in the Congress. The translation process involved a slow, methodical discussion of the issues with virtually every Member of Congress. Of course, the powerful support of two Presidents, John F. Kennedy and Lyndon B. Johnson, was also indispensable!

None of this detracts, however, from the fundamental premise that it was not strategems but rather the solid intellectual argument which functioned as our most powerful weapon.

To turn the coin slightly, my experience has indicated that economists generally show no more perception with regard to the legislative process than did the visiting Political Science students. Time and time again over the past five years in the

Congress and in the Treasury, I have met with groups of economists who seemed to delight in advancing ideas that had absolutely no basis in political reality.

I would certainly not deny either to the political scientist or to the economist the privilege of exploring freely every aspect of his subject matter. Pure research in these disciplines is at least as valuable as in the physical sciences. But I do suggest that both studies -- political science and economics -- seem to be out of touch with the working politicians.

In developing my theme today, I plan to pick and choose from the storehouse of economic history. Many of my comments may prove debatable. Perhaps some of you will even find my treatment of this history a bit cavalier, but then imagine for a moment what history will do to us.

In any event, I want to focus your attention on what I deem to be an important current problem, and to suggest one part of a possible solution.

Basically, I want to ask: "What happened to the study of Political Economy?"

From the early 18th century to the beginning of the 20th century - a span of about

200 years - there was a study known as Political Economy. What has happened to it?

A simple answer is that this study was born to fulfill the need of the times and died when the need ceased to exist. I think this answer is too pat. In my own opinion, the need has continued to exist, but it has been sorely neglected.

This seems to me a particularly appropriate subject to discuss with you. For example, I do not see how complicated financial matters can be presented intelligently to readers without an awareness of the political trends that are running in this nation and in the world. Conversely, I cannot see how your colleagues who write of politics can do so intelligently without an awareness of economic trends and developments.

In this context, let us take a brief look at relevant history and the subject of POLITICAL ECONOMY.

The end of the Middle Ages in Europe brought about new social, economic, and political states replacing the old feudal-ecclesiastical political orders. The resulting problems, economic and political, were new and solutions were sought by many.

Mercantilism flourished and was exemplified in countless writings and in the restrictive and regulative policies of statesmen such as Colbert of France.

The doctrine of "laissez-faire" arose naturally as a protest against the excessive regulation of commerce by government action. Adam Smith and his contemporaries and followers are to be credited with their attempt to see and analyze a national economy as a whole. In doing so, they asked what kinds of governmental policies would best promote national wealth and prosperity. Their answers reinforced the fundamental principles of the doctrine of "laissez-faire," and turned this economic doctrine into a political slogan: "That government is best which governs least." The POLITICAL ECONOMISTS made themselves felt in the world of practical affairs and, indeed, Adam Smith and his followers had a profound influence in almost every part of the Western world.

With the activities of government curtailed and with the general acceptance of the concept that economic history would be written in a free market by competing entrepreneurs, I suppose it was only logical that the study of POLITICAL ECONOMY

would divide into the separate studies of political science and economics. After all, if government had little place in economic decisions and economic decisions little place in government, what profit could there be in the study of POLITICAL ECONOMY?

By 1890, Adam Smith and the world as he saw it had long since vanished into the shadowing past. His world consisted of vast under-developed areas of the North and South American continents, Australia and New Zealand, and a European civilization in the early phases of the industrial revolution. By the end of the 19th century, these areas were settled and the liberating forces of the "industrial revolution" had nearly spent themselves. Though the problems of politics and economics were -- and continue to be -- entangled, a sizable contingent of economists withdrew intellectually from interest in the broader aspects of their subject matter. By the 20th century, the term ECONOMICS came into general use replacing the older POLITICAL ECONOMY, the change of name reflecting changes in the discipline itself, which had become subdivided into a number of specialties.

To me, this withdrawal and the division of the study of POLITICAL ECONOMY was most unfortunate and perhaps we are still paying the price.

It took the terrible depression of the 30's to bring home forcibly the fact that national wealth and prosperity are not the automatic results of that government which governs least.

Our government was forced to make many economic decisions -- considered startling innovations by many. But you and I know there was nothing particularly novel about any of the economic decisions of the 30's. They had all been the subject of numerous economic studies for years. It took a cataclysm to make them a political reality.

To move on into our own times, I can note that Douglas Dillon is the first Secretary of the Treasury to point out that on occasion good fiscal policy requires the temporary acceptance of Federal deficits as a reasonable price to pay for economic growth and a tolerable level of unemployment. Presidents Kennedy and Johnson are the only two Presidents in the history of the United States to support a peace-

time tax cut when the Federal budget is in a substantial deficit.

Lyndon B. Johnson is probably the only leader of a free Government, in history, who has attempted to dedicate the energies of an entire nation to disprove the old Iron Law of Ricardo and Malthus that poverty is the perfectly natural corollary of a free enterprise system. All these economic decisions had been debated and rather generally accepted in the world of ideas years before the event. How, then, do we account for the time lag?

By contrast, 20 years after the detonation of the first atomic bomb, this nation and a large part of the world -- with the active participation of the atomic scientists -- had come to the conclusion that some method of controlling the destructive potential of this discovery was essential. The result: A Test Ban Treaty ratified by this nation in 1963 and President Johnson's recent announcement of a cut-back in the production of fissionable materials. Surely economics is no more difficult than the study of nuclear physics, yet the evidence strongly suggests that the physicists are in better communication with the politicians than are the economists.

The nation is now facing a debate which involves the eventual eradication of poverty in this country. I agree with President Johnson that it is an attainable goal. Congress will soon be debating the annual foreign aid authorization and appropriations bills. I agree with Presidents Truman, Eisenhower, Kennedy and Johnson that the attempt to bring the undeveloped areas of the world up to some reasonable standard of living is feasible and well within the financial and technical competence of this nation and our allies in the free world.

On the horizon we can see an array of problems that could confront this nation in the next few years. To name a few, I would list our trade relations with the Common Market, the question of our peaceful trade with the Soviet Bloc, the question of what to do about our Federal excise taxes, and -- in my particular area -- the entire question of what is an appropriate banking structure to meet the rapidly changing needs of the American economy. In the even more distant future, I would list as potential problems the impact of reduced defense expenditures and how to live with automation. This is only a partial list of problems, and some of them may

simply go away. However, I believe a prudent man would agree that we will be forced to face some of them and attempt to find answers.

To meet our current and future problems will require the closest understanding and cooperation between economists and politicians. To be blunt, however, I think if we are to attack these problems with vigor and imagination it will take more than cooperation and understanding. It will take trained people. It will take people with the academic background, the intellectual capacity, and the political awareness to analyze the problems, devise the appropriate programs, and then muster the support in the nation and the votes in the Congress to make them a political reality. In my experience, this is a fairly rare combination of talents and experience.

The question that bothers me is "Where are these people coming from?" In the past they have been recruited from the financial community, from industry, from the labor movement, from the Federal Reserve System, from academic circles, and from the political arena. The record would indicate that the nation has, on balance, been fortunate in its ability to acquire the right man for the right job at the right

time. I know from personal experience that at times the recruiting process has not been easy.

I suggest to you that the time has come when this nation should consider a more orderly method of developing a ready reserve of men and women, qualified in the intellectual disciplines and with the political exposure required to bridge any gap that may exist between economics and politics. The Employment Act of 1946 creating the President's Council of Economic Advisers and the Joint Economic Committee of the Congress was a useful and hopeful first step in closing the communication gap. But I believe it may be time to take another step.

I would like to see the Federal Deposit Insurance Corporation, of which I am Chairman, devote a substantial sum annually to supporting the training of a corps of men and women who would comprise a national financial reserve. At this point, let me stress most emphatically that I am not talking about another educational or executive development program. Rather I contemplate the creation of an extraordinary group which, by virtue of its training and background, will be especially pre-

pared to serve the nation in areas of high national and international financial and economic policy.

I would like to see trained, at the graduate level, up to five people each year for a four year period, or so long as they showed promise. After the completion of their formal studies, these men and women would continue their training in the Federal Government for an additional four years. I envisage a program that would rotate them through our Corporation and the Office of the Comptroller of the Currency, the Treasury, the Council of Economic Advisers, the Federal Reserve System, the Bureau of the Budget, the Department of State, and appropriate Congressional Committees -- to illustrate the scope of the training.

After the expiration of their four-year terms of duty, these men and women would be subject to an additional call for a four-year term of service during their lifetime at the request of the President of the United States. I do not expect, or even want, all the people in the corps to remain with the Government. Some of them will return to the academic community, some will enter business or finance, some may

prefer Government, some may serve in the labor movement, and, hopefully, some will develop into Democrats and others into Republicans. But this corps will be available as a ready reserve for any future President of either party who needs them.

I am under no illusion that my remarks today will precipitate a remarriage of the political scientists and the economists. Signs of even a mild flirtation between the disciplines are probably more than could be immediately expected. But I do believe that, at this juncture of our history, the nation badly needs a reservoir of trained men and women who can move with assurance in the world of economic ideas and in the world of political reality while understanding the problems of both. It is for this reason that I am today suggesting that we consider the advisability of creating a national financial reserve.

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