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FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D. C. 20429

Telephone: 393-8400
Br. 221

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THE ELECTION AND THE FINANCIAL COMMUNITY

Address of

JOSEPH W. BARR, CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D. C.

before the

NEW YORK STATE BANKERS ASSOCIATION
Management Conference on Instalment Credit

at the

Biltmore Hotel, New York City

Monday P. M., November 9, 1964

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Joseph W. Barr, Chairman, Federal Deposit Insurance Corporation
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The subject of your meetings here today and tomorrow is "Instalment Credit." But I intend to use this platform to refer only briefly to "Instalment Credit" and then to turn to a discussion of a subject that I want to talk about: "The Election and the Financial Community."

Now what about instalment credit? It would seem to me that the central issue of public policy in this area is starkly simple: "How much instalment credit can the people of this nation prudently carry?" I can see no reasonable argument which would deny the value of instalment credit in supporting the economic vigor of this country. But probably all of us wonder "How much is too much?" I cannot devise an answer to this question and I have encountered no answers that impress me. The answer rests on the individual good sense of the American consumer. It rests on his ability to gauge his current economic position and his future and his ability to relate his own position to the future of his employer and to the progress of the national economy. I will defy any computer to solve this equation, especially when I should properly substitute the pronoun "her" for the generic pronoun "his" in the above statement. The sociologists tell me that it is the American wife who determines the volume of instalment credit, and I am inclined to accept their judgment.

If all this be so, then it would seem that a sociologist or psychologist would be in a better position than I to explore this subject. They are better prepared to evaluate the good sense and integrity of the American consumer.

This is all that I have to say to you on the subject of instalment credit, and now I turn with some trepidation to the subject "The Election and the Financial Community." The "crystal ball" business is notoriously hazardous, but forcing myself to ponder is a useful exercise, and possibly these preliminary conclusions will prove helpful to you.

When I first came to Washington as a freshman Congressman, I heard a short address by Mr. James Reston that I have never forgotten. Mr. Reston was speaking extemporaneously, and I have no text to quote, but to the best of my memory he said, "If you want to understand what is going on in this town (Washington) today, you must know what went on yesterday. And if you know that, you can get some glimpse of what will happen tomorrow." As my own observations around the country tended to confirm the amazing statistics of the polls, I decided about 10 days ago that it was time to apply the Reston principle to the developing situation to see if I could understand where we are and where we are going. I confined my study and I will confine my observations to the financial aspects of public policy because this is the area where my experience gives me at least some authority.

If we apply the Reston thesis, where do we start? I looked back over the financial history of this country and decided that I could find no earlier era that held many answers for today's problems. It seems to me that we are currently moving in a flow of history that starts somewhere around 1958 - 1959. This was roughly the time when there was a developing awareness that the problems of the years immediately following World War II had changed. This was the time when debates in and out of the Congress began on the subject of an inadequate growth rate and on the causes of the recessions which were coming at ever closer intervals. This was the start of the public awareness of persistent and large deficits in our international balance of payment -- and of their implications. This was the time when thoughtful men began to ask each other how we could reconcile the traditional recession remedy of easier money with the competitive pull of higher interest rates overseas. This was also the time when debt management officials began to look at ever-shortening debt maturities and wonder how they could hold to a manageable maturity schedule without interfering with the long-term money market.

From these debates within the Congress, in the financial and academic communities, and to some extent in the elections of 1960 and 1962 there grew a new attitude toward Federal financial policy and a series of legislative actions.

These legislative actions include:

The Revenue Acts of 1962 and 1964

The Trade Expansion Act of 1962

The 1962 legislation authorizing United States participation in the arrangements to increase the stand-by authority of the International Monetary Fund

The Interest Equalization Tax of 1964

The Federal Reserve Board's swap arrangements, and the Treasury's foreign currency borrowings were administrative actions evolving naturally from the debates, elections, and decisions set in motion around 1958.

But rivaling these legislative and administrative actions was a change in attitude. There developed in the Congress and in the country what I consider to be a very healthy intellectual climate. I would describe it as an attempt to strip away all the prejudices and shibboleths of the past and to look at the issues in the cold light of today's realities. I can never forget the Congress of the United States wrestling with the almost heretical question of whether to cut taxes when the budget was in deficit. I can remember the admonition of men of good will who were concerned that the Treasury's "twist" policy in debt management could destroy a free market in government securities. I can remember patiently explaining to intelligent men that Treasury borrowing overseas did not mean that our credit was exhausted at home.

The misgivings of these men were understandable. The financial status of the United States is an issue of vast consequence to us and to the Free World. I found myself sympathizing with them as they sought to understand new issues and the proposed solutions. As a matter of fact, there were times when we were not absolutely certain that we were on the right track.

I think that we are still moving in this current of history and the election of last Tuesday gave the President and the Congress a mandate to continue sober, prudent, and creative efforts to resolve the issues which still confront us. We are underway in our attack on the problem of an inadequate growth rate and the under-utilization of our human and physical resources. Related to this is the problem of the pockets of poverty that waste our human capabilities. We have made a hopeful start in reducing the deficit in our international accounts, but that battle is not over, as all of you know. When we do close that gap, then we are faced with the question of financing a steadily increasing volume of world trade. The issues surrounding our role in assisting the developing nations are far from resolved. In the country and in the Congress there still remains vigorous disagreement as to the proposed remedies.

So it seems to me that we are still moving against the issues that came to light about 1958. The solution of these issues will inevitably confront us with chain-reaction problems and, of course, new issues will be arising.

While others may speculate as to what the mandate of last Tuesday meant, I feel confident that the Administration, in attempting to resolve these financial issues, will proceed with caution and serious deliberation. The Congressional system imposes unusual restraints in the area of financial legislation. There is a century and a half of tradition that imposes the most careful scrutiny and the most deliberate consideration upon any proposal in the financial area. All of us who have served President Johnson are well aware of this fact of life and, regardless of any Congressional majority, we would be reluctant to advise him to move without the most mature and searching consideration. I might add that the President undoubtedly knows this fact of life better than any of us. When you add to tradition the fact that the members of the Committees of Congress dealing with financial legislation have just wound up a four-year postgraduate course in domestic and international finance, I am sure that you will agree that prudence has a particular value at this time. Prudence can be no substitute for creativity and imagination, but there is room for both, and the necessity for both.

At this point I would like to offer a word of advice. The election is over and probably many of you are wondering whether your views will be welcomed and respected in the Administration and in the Congress. I suppose that this is especially true if you were or are in the opposition. Let me reassure you. This nation needs ideas, it needs enlightened judgment, and I will admit that it needs intelligent criticism. Here in New York is a vast reservoir of talent and experience -- especially in international finance -- that is an asset of crucial importance to the nation. I would urge you to make yourselves heard -- no matter what your party affiliation. I would also add a note of caution: Beware of factitious pleading. The economic sophistication in the Administration and in the Congress is at a level where such arguments can be quickly exposed for what they are.

In conclusion I suggest that we started down a road about 1958 on which last Tuesday was an important milepost. I am not foolish enough to say that I view the future with complacence, but I can say that our national record in finance is good enough to give me a certain confidence in the way we go about our work, and in the men and the institutions available to us.

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