



# FOREIGN POLICY ASSOCIATION

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### FPA Statesman Dinner December 6, 2011

*Remarks by:*

#### **Paul Volcker, Former Chairman, Securities and Exchange Commission**

Paul Volcker:

“Thank you ladies and gentlemen. Let me say it really is a, and I don’t say this every time I have to make a speech. It’s a pleasure to be here with the Foreign Policy Association, particularly with Henry Kaufman. But let me say, before I get to that subject, let me just say a word about James Doty and his responsibilities. He talked about the importance of accounting and auditing and it was a very neglected subject, generally in terms of the discipline of performance of financial markets. And I think it’s an area where we need considerable improvement, considerable discipline, he used the word skepticism, that’s a watch word for auditors and I’m afraid that that has not been practiced as uniformly as it should be. And he is going to do great things, at the PCAOB, because they have the responsibility for overseeing the auditing and accounting. So I am delighted that he is here and has been honored this evening.

But I’m here obviously primarily to honor Henry Kaufman. Now it so happens I have known Henry Kaufman- I did a little arithmetic at the table- I believe for 55 years. That’s about the time most of you were in grade school or kindergarten. And as I thought about my relationship with Henry during all these years, I do think I brought certain advantages to our friendship, our relationship. I am older than Henry by six weeks. I am taller than Henry by 12 inches. And to my memory, maybe his memory is different, when we first met, at the Federal Reserve Bank of New York 55 years ago, in my opinion I outranked him by a little bit. But if all that’s true, I also know some other things. I know that Henry is smarter; I know that because he came to the Federal Reserve with more degrees than I had. He had a PhD in economics before that became a mathematical degree. It was real economics at that stage. He’s reflected his interests, his scholarship, in the fact that he’s written at least three books. I once wrote half a book. That makes him kind of six times what I’ve generated.

I know he is a generous man; he supports more educational institutions than I attended, with a professorship here, and a building there, and all the rest. The most important fact that I can tell you is that Henry knows more about interest rates than I do. Now that may surprise you, how do I know that. Well I'll tell you, I have the evidence at hand. Here is a small book, 696 pages; it is called "The History of Interest rates, since the Babylonian enterprise and Wall Street. No, Henry did not write this book, but Henry has read it. And I know Henry has read it for two reasons: he wrote a forward to the book. Now this is a new addition of the book, but I know Henry and I know that he would not write a preface to a book if he had not read the new chapters to the book. So I assume that was done. And Henry was very familiar with the first addition, which goes back some years. It was only 394 pages at that point. But in reading the preface to the book I want to tell you why I know he knows all about interest rates.

He said himself, my first examination of the history of interest rates was at the first edition. Which very detail, had just taken a new job with Sydney Homer, who was a principal author of the book, at Solomon Brothers, he was instructed by Sydney to read the book. And he was instructed to do it, and I quote Henry, "in a meticulous way. I read the entire book, then encompassing 594 pages, and 81 statistical tables. I read every page out loud to my secretary, and it has made an imprint on my career." Truer words, I suspect, were never spoken. Now you know in many ways we have followed parallel careers for 55 years, we actually grew up quite close together, about 5 miles apart geographically, but it was a lot more than 5 miles apart culturally. I grew up in a nice, white, suburban New Jersey- it was the epitome of middle class, my family was the epitome of middle class Americana at that point. Henry, which ended up only 5 miles away or so across the George Washington Bridge, family and Henry were refugees from Nazi Germany- a little different from my experience, a little more exiting if truth be told. He ended up in Washington Heights, which was kind of a hotbed of talent at that point, and talent was in considerable part fertilized by refugees from Nazi Germany. Henry went I think to the same high school as Henry Kissinger, and others. And this was a place where these refugees, [something] children in his case, somehow became citizens of the United States of America.

I always wonder in our background, back when I was in grammar school learning about George Washington Bridge, throwing silver dollars across the Rappahannock, and cutting down cherry trees, and log cabins for Abe Lincoln, and on and on, part of our kind of mythical history, I mean Henry and his compatriots in Washington Heights must have missed all that. But what's interesting is, obviously, in a very shorter period of time, they became Americans. I don't know why Henry ended up with a true blue New York accent and Henry Kissinger never got over his. But be that as it may, I think it really is a source of pride for America that these people could be absorbed into the society of New York and make the contributions they have made. But I have to say, looking at Henry's career and some of the parallels we've had, he no doubt loves his country but he's also aware of its faults, not least in financial markets, and not so coincidentally in recent years. Now Henry's a man who grew up in our financial markets.

Started out in the Federal Reserve, went to Solomon when that was quite an institution, he left that after a few years and has been in the financial world as an entrepreneur. But he's very aware of what's been going on, and he is as concerned about defaults and distresses in our economy and in our financial system as anybody. And I think it's fair to say, that cognizant of all those problems, Henry wants to do something about it. He's aware of the problems- that's part of the reason he wrote these books. And part of the lessons of those books, and I don't know what he's going to tell us tonight, but he has to raise the question of the degree to which those

in financial markets have lost their way, have they lost their sense of fiduciary responsibilities, where is a sense of responsibility to a customer? To an institution, the kind of institution that he grew up in, a partnership that he grew up, whether that institution is a private institution or a public institution? And where is the sense of personal responsibility, personal responsibility among all the mechanistic, mathematical markets that exist in financial markets these days.

Well I don't know the answer to all those questions, but I do know that Henry Kaufman is still at it. He's still at it, speaking his mind, doing what he can do, intellectually, publically, privately, to make this country better. So for all those reasons, Henry I want you to come up here, so I can take great pride in presenting you the Statesman Award, as a great American citizen.