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Remarks

by

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Chair

Board of Governors of the Federal Reserve System

accepting (with Ben S. Bernanke) the

2017 Paul H. Douglas Award for Ethics in Government

from

Institute of Government and Public Affairs at the University of Illinois

Washington, D.C.

November 7, 2017

Thank you for the honor of sharing this award with such a worthy person, my friend and former colleague Ben Bernanke, and also for the honor of being associated with the exemplary life and legacy of Paul Douglas.

Sen. Douglas's contributions to ethics in government are an important aspect of that legacy, but since Ben and I are the first economists to win this award, I would also like to give due credit to Professor Douglas for his contributions to economics.

Working with the mathematician Charles Cobb, Douglas gathered data and created a statistical model that advanced economists' understanding of the relative contributions to production made by capital and labor. This work demonstrated many of the methods that economists would come to use and continue to use to this day. Douglas constructed empirical measures of key economic concepts. He then employed what were, for the time, advanced statistical techniques to analyze these data, thereby shedding light on a basic economic relationship. As one recent commentator put it, work such as Douglas's was part of "a growing literature . . . [that] played an important role in shaping the approach to combining statistical methods and economic theory that would become the standard econometric practice in the later decades of the 20th century."<sup>1</sup>

But, of course, Paul Douglas was much more than an economist. From an early age, he always seemed to be the man in the middle, seen by the two sides of a dispute as intelligent, knowledgeable, and impartial enough to be trusted to seek a solution. He mediated labor disputes and advised local government officials in Illinois. He also helped governors in Pennsylvania and New York develop what became Social Security, unemployment insurance, and the idea of publicly owned power utilities. After losing his

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<sup>1</sup> See p. 228 in Jeff Biddle (2012), "Retrospectives: The Introduction of the Cobb-Douglas Regression," *Journal of Economic Perspectives*, vol. 26 (Spring), pp. 223-36.

first election for the U.S. Senate in 1942, at the age of 49 he enlisted in the U.S. Marines and was awarded a Bronze Star and Purple Heart for his service in the Pacific. Later, after he was elected to the Senate, Douglas was a champion of consumer protection laws, including the 1968 Truth in Lending Act, and was a leading supporter of civil rights legislation.

One of Paul Douglas's most important achievements in public life was to promote ethics in government. He was raised with a strong sense of right and wrong and was heavily influenced by the philosopher John Stuart Mill to believe that ethical behavior was also an eminently practical approach to life. As a college professor, he entered public life in Chicago in the 1920s somewhat reluctantly to fight the spectacular political and commercial corruption that was strangling the city. Once elected to office, he faced the challenge of how to act ethically when corruption was so universal that the city's aldermen were expected to funnel large sums to their constituents, based on the presumption that all politicians were "on the take." If he refused bribes and then had no money to hand out, how would he convince people that he wasn't simply refusing to share?

The key was transparency and communication. Everyone who asked for a large payment was handed a mimeographed statement titled "Please Help Me to Be an Honest Alderman." At first, the public, inured to corruption, either disbelieved him or thought him a sucker for refusing to take bribes. But over time, Douglas's stand changed both the demands made by supplicants and his constituents' expectations for ethical behavior by a government official.

Similarly, in 1939, Paul Douglas was one of the first public officials in America to publish a full accounting of his personal finances. In his memoir, Douglas admits that this and other ethical rules he imposed on himself were often a nuisance and, in some cases, probably went further than needed to demonstrate his honesty. But he believed that the public's trust was so fundamental to the effectiveness of government that such steps were appropriate. As a senator, he continued to publish his finances and observed strict limits on the value of personal gifts he received from those seeking benefits from him as a public official. He strongly believed that these gift limits also made him more effective as a public servant, and he campaigned for legislation that ultimately led to the widespread requirement of financial disclosure and limits on accepting gifts.

I share Paul Douglas's view that behaving ethically is both the right thing to do and, in practical terms, helps maintain the trust the public places in those who act on its behalf. The Federal Reserve's very effectiveness in setting monetary policy depends on the public's assured confidence that we act only in its interest. We must act ethically, and we must demonstrate our ethical standards in ways that leave little room for doubt.

I am grateful to share this award with Ben, and I am even more grateful for the example Paul Douglas set for ethics in government that has guided countless public officials since his day and also shaped the public's expectation that its leaders will put the public's interests first.