

Council of Great Lakes Governors
17th Annual Leadership Summit
Federal Reserve Bank of Cleveland
October 15, 1999

Jerry L. Jordan
President and CEO
Federal Reserve Bank of Cleveland

Luncheon – Panel Discussion
12:40 p.m. to 2:00 p.m.
Main Lobby

- Acknowledge introduction by Governor Tom Ridge.
 - Pleased to open FRBC for this meeting of the Council of Great Lakes Governors.
 - Welcome everyone to FRBC:
 - Governor Bob Taft (Ohio)
 - Governor Tom Ridge (Pennsylvania) (Chairman of Council)
 - Governor John Engler (Michigan)
 - Governor Tommy Thompson (Wisconsin) (is he here?)
 - Premier Mike Harris (Province of Ontario)
 - Distinguished guests
- Fellow Panelists: Moskow, Poole, Jenkins
- Before making a few remarks about economic development and growth, I want to take a minute to describe the importance of regional input in the formulation of U. S. monetary policy.

- Everyone wants prosperity – but some countries and regions within countries enjoy more than others. Why is that?

Adam Smith: Wealth of Nations (1776)

Karl Brunner: Poverty of Nations Why are resource rich places like Russia and Brazil so poor?

De Soto: El Otro Sendero – The Other Path Not European “third way”

Klaus: “The third way is the fastest way to third world.”

Instead, we need well-functioning markets.

- In this decade, lots of experts from North America and other prosperous countries have been giving advice to Eastern Europe and former Soviet Union republics.
 - It turns out, the keys to sustainable growth and prosperity are much the same for countries/regions/cities.
 - The economic infrastructure that promotes wealth creation is well known.
- We know that “guiding” the economy doesn’t work. Failed efforts at central planning is a convincing 20th century example.

- We can't predict which industries or occupations will create employment in the future.
 - A few years ago, who could have predicted today's strong demand for people to design home pages for web sites on the Internet? Many of us would have asked: What is a home page; what is a web site? What is the Internet?
- We do know that an economy – any economy – is not like a machine or building, to be designed by engineers or architects.
- Instead, an economy is more like a garden. The plants grow spontaneously when the conditions are right.
 - A garden – needs soil, moisture, warmth, sunlight, a fence to keep the rabbits out. Then, its inherent potential is reached naturally.
 - An economy -- needs an infrastructure of institutions that provide an environment in which economic growth can occur:
 - For example, laws, police, and courts to protect private property are crucial.
 - It needs protection against fraud, embezzlement and other deceptions.
 - Accounting rules and auditing procedures to ensure accurate financial information are essential.
 - And sound financial institutions are needed to facilitate payments and mobilize savings.

- It is becoming conventional wisdom that stable, understandable tax laws, with low marginal rates, are essential.
- Finally, sound money. (Perhaps here talk about FOMC process)
- A major goal of public policy is to raise living standards. We want to create widespread prosperity, not through redistribution of wealth, but rather through widespread wealth creation.
- Creating wealth and prosperity requires productivity. Individual prosperity requires individual productivity. To be consumers, we must also be producers.
 - We all know that productivity requires physical capital, such as buildings and equipment.
 - Productivity also requires human capital, including things such as education, skills, initiative, and health. When we promote such attributes, we promote prosperity.
 - To increase human capital, we need better schools, which competition can help achieve, and we need both children and adults to have access to positive ideas through exposure to positive role models.
 - U. S. higher education is the envy of the world. Tens of thousands of foreign students come here for higher education. But the pipeline of our primary and secondary schools is dismal compared to other major industrialized nations.

- The situation in education is especially interesting. I recently was at a conference where Milton Friedman said that he probably could be hired by any college or university in the U.S. (the world?), but he is not certified to teach in any primary or secondary school.
- Some local initiatives to remove sand from the gears:
 - Residential mortgage credit project.
 - Access to capital project.
- In summary: Our role in central banks is much more like gardeners than architects; we try to help foster an environment where the creative nature of the human spirit can flourish.
- The 1990s has been a great decade for the Great Lakes region. I am optimistic that the first decade of the next millennium will be even better.
- Introduce next speaker.

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- Acknowledge introduction by Governor Ridge.
- Pleased to open FRBC for this meeting.
- Welcome everyone to FRBC:
 - Governor Taft
 - Governor Ridge
 - Governor Engler
 - Premier Harris
 - President Moskow
 - President Poole
 - Governor Jenkins
 - Admiral Hull
 - Mr. Vradenburg
 - Special Guests
 - Members of the press
- Everyone wants prosperity – but some areas/countries have more than others. Why is that?

- Lots of experts giving advice to Eastern Europe and former USSR.
 - The keys to sustainable growth and prosperity are much the same for countries/regions/cities.
- We don't know how to cause growth to occur.
- We do know that “guiding” the economy doesn't work. Central planning is a convincing 20th century example.
- We can't predict which industries/cities/occupations will flourish.
 - Pittsburgh in 1980 and Cleveland in early 1990s.
 - Five years ago, who could predict demand for webmasters?
- We do know that an economy – any economy – is not like a machine, to be designed by engineers (government officials) and fueled by gasoline (government stimulus).
- An economy is more like a garden. It grows spontaneously when the conditions are right.
 - Garden – needs soil, moisture, warmth, sunlight, a fence to keep the rabbits out. Then its inherent potential is reached automatically.
 - Economy -- needs an infrastructure of institutions that provide an environment in which economic growth can occur:

- Laws, police, and courts to protect private property.
 - Laws against fraud and deception.
 - Accounting rules and auditing procedures to ensure accurate financial information.
 - Financial institutions to facilitate payments and mobilize savings.
 - Sound money.
 - Stable, understandable tax laws with low marginal rates.
- Governments can also remove sand from the gears. Some examples of sand: *[Note: Some of these might be too blunt, with the press being there and the governors being politicians.]*
 - Minimum wage law.
 - Delays in granting business permits. (Requiring permits in the first place.)
 - Requiring licenses for occupations where the employer/customer can judge skill and qualifications.
 - Hairdressers/barbers.
 - Teachers.
 - K – 12 teachers need licenses.
 - College teachers don't.
 - Which level of education is working better?

- Regulations.
- Restrictions on imports.
- Some local initiatives to remove sand from the gears: *[Note: You won't have time to describe these projects, but mentioning them might prompt a question from the audience that will give you the opportunity to talk about them.]*
 - Residential mortgage credit project.
 - Access to capital project.
- In summary: Be a gardener, not an architect, and let nature take its course.
- Introduce next speaker.

Notes for Introducing Speakers

At the speakers' table, you will be seated next to the lectern. On your left will be Mike Moskow, then Bill Poole, then Paul Jenkins.

All speakers (except JLJ) were educated in the Great Lakes region. (But Jenkins also has degree from London School of Economics)

Michael Moscow

President of FRB Chicago
Joined Fed in September 1994

Educated in Great Lakes region
B.A. Lafayette College, Easton, PA
Ph.D. University of Pennsylvania

Former Positions:

Assistant Secretary in Dept. of HUD.

Under Secretary of Labor.

President and CEO of Velsicol Chemical Corporation.

Deputy U.S. Trade Representative with rank of Ambassador.

Professor of Strategy and International Management at the
J.L. Kellogg Graduate School of Management at
Northwestern University.

Currently:

Member of Executive Committee of National Bureau of
Economic Research.

Author:

Seven books and numerous articles.

William Poole

President of FRB St. Louis

Became president in March 1998 (but at BOG from 1964 to 1974)

Educated in Great Lakes Region:

A.B. Swarthmore College in Pennsylvania

Ph.D. University of Chicago

Former Positions:

Economist at Board of Governors of FRS

Professor of Economics at Brown University

Council of Economic Advisors

Adjunct Scholar at Cato Institute

Member of Shadow Open Market Committee.

Consultant to Federal Reserve Banks of Boston, New York, and San Francisco, the Reserve Bank of Australia, and the Congressional Budget Office.

Author:

Money and the Economy: A Monetarist View (1978)

Principles of Economics (1991)

Numerous articles

Paul Jenkins

Deputy Governor of the Bank of Canada

Appointed in March 1992 (but joined the Bank in 1972)

Major responsibility is analysis of domestic and international economic issues and their relationship to monetary policy.

Educated in Great Lakes Region (but not entirely):

B.A. University of Western Ontario

M.S. London School of Economics

Former Positions in the Bank of Canada:

Economist in Research Department

Deputy Chief of Department of Monetary and Financial Analysis.

Chief of Research Department

Advisor to the Governor of the Bank