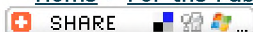

Reflections on Leadership from a Federal Reserve Policymaker

Additional Information

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President Pianalto began her address by sharing some leadership lessons she learned over the course of her career. Since she was speaking from notes, text is not available for that portion of her remarks.

Her comments related to the Federal Reserve's monetary policy actions and her observations on the value of a college degree follow.

The United States is still struggling to fully recover from the worst recession since the Great Depression. Those of you who have followed our actions closely know that the Federal Reserve has responded aggressively and creatively to bolster our economy. First, we employed a traditional monetary policy tool. We lowered our main policy interest rate, a short-term rate, to nearly zero where it remains today. As the extremely challenging economic environment persisted, we used nontraditional policy tools to reduce longer-term interest rates. We began purchasing large quantities of long-term U.S. Treasury securities and mortgage-backed securities. This action is commonly called quantitative easing, or "QE."

We also began to provide much more information to the public about our economic outlook and about how changes in our outlook were likely to translate into future monetary policy actions.

Still, our economic recovery has been frustratingly slow. We have not returned to the level of economic activity we want or need to create sustained job growth in the United States.

At the most recent meeting of the FOMC last week, the Committee approved further measures to support the recovery. The FOMC stated that it expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens.

The FOMC also decided to purchase additional mortgage-backed securities, which should put further downward pressure on longer-term interest rates.

It is possible that these purchases will yield somewhat smaller interest rate declines and may not stimulate economic activity as much as past large-scale asset purchase programs.

Nevertheless, by purchasing additional mortgage-backed securities, this program should put some downward pressure on home mortgage rates. These lower rates should provide further support for the housing sector by encouraging home purchases and refinancing. In this way, monetary policy might help to stabilize housing prices, reduce mortgage payments, and generally bolster consumer

confidence. Rising confidence, in turn, should support more spending for goods and services, and, over time, lead to more employment.

However, the connection between monetary policy and job creation is not straightforward. Monetary policy cannot directly create jobs. It is most effective in fostering conditions that lead to stronger economic growth over time. In addition, our experience with nontraditional monetary policy tools is limited. The research that has been done on the effectiveness of these tools has resulted in different estimates of their impact. Yet virtually all of the studies find that there is some beneficial impact; they just disagree on how much. While our monetary policy actions can make a contribution, a more robust recovery requires resolving problems that are beyond the control of monetary policy, including addressing our country's fiscal challenges and the situation in Europe.

In addition, monetary policy actions come with some potential risks, so it is very important that the Federal Reserve continues to evaluate the benefits and costs of our actions. One potential risk that is cited by some people is that inflation could become a problem down the road. Inflation has been at or below 2 percent during the past few years, and I project it will stay in this range for years to come. Nevertheless, our policy process is designed to keep a sharp focus on inflation and inflation expectations, and we will act to head off any emerging threat to price stability.

The slow rate of this economic recovery is affecting businesses and households throughout the country in many ways. But for the students here today who are preparing to enter the workforce, your biggest concern is that you will be facing a weak job market and may have trouble landing that first job.

So I thought I would wrap up my remarks with research that shows that a college degree will improve your chances of getting a job and enhance your earnings potential throughout your career. I know that some people question whether a college education today is worth the cost. I say it is …and the numbers back me up.

My economic research team at the Federal Reserve Bank of Cleveland has done extensive research on the value of post-high-school education and its impact on earnings and on communities. Several figures underscore the enduring value of education.

- Current data indicate that college degree holders enjoy an 84 percent increase in earnings over their high-school-educated counterparts.[1]
- The major that you choose can also affect how much more you make than a high school graduate. You may be pleased to know that people with economics, finance, and business management degrees rank near the top earners, with marketing right on their heels. The three other degrees where the earnings premiums are particularly high are electrical engineering, computer science, and nursing.[2]
- In addition, the current unemployment rate for people over 25 years old with a college degree is 4.1 percent. This is less than half the current unemployment rate of 8.8 percent for people over 25 years old with only a high school education.[3]

Higher education not only will benefit you personally throughout your life, it also benefits communities. Simply put, areas of the country that have more "knowledge capital" perform better than areas with less. These areas have a larger pool of highly skilled workers to generate and share new ideas, and to find new ways of doing business. They develop more new products and inventions. They also

may be more flexible in adopting new technologies and in adapting to change.

Unfortunately, the United States is falling behind in education on the global level. Back in 1995, the United States had the second-highest college graduation rate in the world, but by 2008, we had slipped to thirteenth. In a recent comparison of test scores in 34 developed countries, the United States is ranked 14th in reading, 17th in science, and 25th in math. It is not so much that people in the United States are becoming less educated, but rather that people in other countries are making faster progress.

The United States has one of the highest standards of living in the world. We have an enviable record of innovation, and our natural resources and infrastructure are unmatched anywhere on the globe. Yet, some say that for the first time in our history, the current generation may not fare as well as their parents' generation.

I disagree. Standards of living are improved by productivity gains, which are driven by innovation. The United States is still considered the most innovative country in the world. Each of you has the opportunity to help us maintain our innovation advantage and thereby strengthen our living standards for generations to come.

As the economy grows—and it will—and as the unemployment rate falls—and it will—the demand for workers with good skills will increase as well. You will leave Miami University with knowledge and skills that we need now, more than ever before. Human capital —the capital sitting right here in this room—is the engine that will spark innovation, fuel economic growth and, in turn, lead to gains in our standard of living. You will be a part of the 21st century success story.

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1. "The College Wage Premium," Jonathan James. Federal Reserve Bank of Cleveland, *Economic Commentary*, 2012-10.
2. "The College Wage Premium," Jonathan James. Federal Reserve Bank of Cleveland, *Economic Commentary*, 2012-10.
3. Bureau of Labor Statistics.