

To the Trustees of America's Economic Potential

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The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.

To the Trustees of America's Economic Potential

Richard W. Fisher

I must sound like an odd duck: a midshipman who became an academic who morphed into a hedge fund manager who became an ambassador and trade negotiator who became a central banker. It all sounds a little serendipitous, if not a little nuts. My daughter Alison once summed me up as the career equivalent of Virginia Woolf's book *To the Lighthouse* because, as she put it, "Dad, you have no plot and you never end."

Well, we are here at the end of an important phase of your lives, the granting of your respective degrees in economics. I hope your interest in this field never really ends. And I hope that having come this far, you understand by this time that yes, indeed, there is a plot to economics.

When you announced your intended major to your parents, I'm betting they breathed a sigh of relief that you were not choosing medieval French poets as your major. There is much to learn from the medieval period—perhaps more than we can learn from France today. And poetry is, indeed, a refined medium, alone or transformed to song. But few would quarrel with the proposition that there are more job opportunities available today for econ majors. Now that's a good plot line! Your course of study at this great university has tangible value. "Yes!" say Mom and Dad.

The meaning of the degree you are going to receive today is, however, far greater than what you might receive for your first paycheck as a consultant or analyst or investment banker or teacher or—if you have the same success I had as a newly minted graduate with an economics degree from Harvard—as a bartender.

Economics has a unique attribute: It is a liberating course of study. It frees you from ignorance. It gives you powerful tools for reasoning. It provides a logical, consistent and faithful framework that you can apply again and again to think rationally about the world. A good economist is to society what Vince Young is to the game of football—you possess the ability to look down the field, read it and bring order to what anybody else might consider chaos and confusion. Properly applied, it allows you—and the people you instruct in a classroom or lead in the workplace—to score victories against mighty opponents.

We live in a world undergoing dramatic change. Capitalism and the pursuit of profit—once contested by armed and dangerous opponents in the form of the Soviet Union and the People's Republic of China, rejected by then-mortal enemies in Vietnam and ignored by great, but highly bureaucratized states like India—is now embraced by all but a few rogue Latin American and African states. When I was in college, we sent young men to die in a "hot war" in Indochina to protect Asia from communism. We fought a cold war in which we faced mutually assured nuclear destruction from our competitors. Today, we compete for prosperity through markets.

So different is your world from that I ventured into with my undergraduate degree in economics that today, the debt of Vietnam trades at a yield premium to that of Ford Motor Co. When I graduated from college in 1971, we were still killing the Vietnamese. Much of the Vietnam War had been led by a Secretary of Defense who was the former CEO of Ford. Today, the proceeds of

shorting Ford's stock are invested in the Vietnamese market. And as to our other former Asian protagonist, there isn't an American business woman or man alive who doesn't covet access to the wellspring of China.

Talk about taming the animal spirits!

There is healing power in the weaponry of economics. This is what we know from studying the seminal works of great economists like Adam Smith and David Ricardo and John Maynard Keynes and Joseph Schumpeter and . . . Langston Hughes and Robert Earl Keen.

Adam Smith, of course, taught us to trust the miracle of the "invisible hand." If there is one thing we know as Americans, it is that incentivized properly by government and unhindered by the darker impulses of politicians, the men and women who run the private sector—the millions of middle managers and decisionmakers who empower the machine that produces \$13 trillion of American output a year and figure out how to grow our economy at rates and for time intervals no one thought possible—act as the nerve endings in the fingers of that invisible hand, reaching into every corner of the globe to extract value, drive productivity and secure our economic future in a globalized world.

David Ricardo? Well, he taught us the principle of comparative advantage. We produce most effectively what we produce most competitively. And in doing so, we elevate the standard of living of all our people.

The legendary British Prime Minister Winston Churchill understood this better than most great leaders. He was a free trader. He spoke of the "superfine processes." He understood that the cure of protectionism was worse than the disease of competition. Let those who can produce goods cheapest, even with subsidies from their governments, sell those goods unfettered into the British market, he argued. The Brits would take those cheap inputs, add value and turn those inputs into "superfine" products that would command greater prices, generate greater profits and, with those profits, finance greater job creation—just as we do today with imports of goods from China and services from India. We take them in, add to them and move up the value-added ladder to grow our economy by some \$410 billion in incremental growth a year—an incremental growth equal to the entire output of Malaysia, Ireland, Chile and Kenya all added together. This is the process that propels California to produce more than China; the process that empowers the 23 million people of Texas to produce 28 percent more output than the 1.1 billion of India; the process that now employs 135 million Americans, having driven the unemployment rate to its lowest level in years.

And John Maynard Keynes? Keynes did far more than simply show us what a Republican Congress has learned to practice even better than Democrats: that government spending and deficit accumulation can goose the economy beyond sustainable means. He gave us one of history's greatest little ditties.

After the Second World War, the Bretton Woods conferences were convened to draw up the institutional architecture for rebuilding Europe and making the world safe for capitalism with a World Bank, an International Monetary Fund and a General Agreement on Tariffs and Trade (which has since evolved into the World Trade Organization). We were the victors in the Second World War, and just as to the victors go the spoils, to the great economists of the United States

went control of Bretton Woods. Keynes—who possessed the most fertile mind of the people there assembled but was not an American—complained bitterly to Lord Halifax, the British ambassador at the time, of the Americans’ arrogance, and Halifax sought to comfort him:

“In Washington,” Lord Halifax
Whispered to Lord Keynes,
“It’s true [Americans] have the money-bags,
But we [Brits] have got the brains.”

Well, it turns out we had both money and brains! For we mastered what Joseph Schumpeter professed from his classrooms at my alma mater after the war: the process of “creative destruction.”

Let me cite three passages from Schumpeter’s great works. Listen carefully, economists.

First, he said: “The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.”

Then: “The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory...illustrate the same process of industrial mutation...that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is... what every capitalist concern has got to live in.”

And then, to hammer home his point, Schumpeter wrote: “A railroad through new country upsets all conditions of location, all cost calculations, all production functions within its radius of influence; and hardly any ‘ways of doing things’ which have been optimal before remain so afterward.”

String the key operative phrases of those three citations of Schumpeter’s together and you get the plot of the story, the plot of the modern, globalized economy we now live in: “The opening up of new markets, foreign or domestic. . . revolutionizes the economic structure, . . . destroying the old one, . . . creating a new one. . . . [It] upsets all conditions of location, all cost calculations, all production functions, . . . and hardly any ways of doing things which have been optimal before remain so afterward.”

The master of the creative destruction of syntax, Yogi Berra, put it more eloquently: Once you open new markets, “History just ain’t what it used to be.”

Today, China and India, nanotechnology, the Internet and the human genome project, the BlackBerry and the iPod are the railroads of the 21st century that are changing the landscape of history. They are propelling us forward into a world in which whatever was optimal before is no longer so. From now on, history just isn’t what it used to be.

And, with all this change swirling around us, you—you who have grounding in economics—have within your tool kit the means to define the newly optimal path to prosperity, to guide us forward in a hypercompetitive, seemingly discombobulated world.

Consider yourselves the trustees of the potential of America. By mastering, by proselytizing and by improving upon the basic teachings of economics—the principles of competition, profit and utility maximization, comparative advantage, creative destruction, survivor theory, rational expectations, time inconsistency, game theory, Ricardian equivalence, public choice theory, growth theory and monetarism—you have in your hands a compass for navigating the treacherous waters of a tumultuous world. It works for me. Just as I am guided in my work today by the essential economics lesson I learned as an undergraduate economics major that too much money chasing too few goods gives rise to inflation, economic “true north” is now within you—*your* faithful friend and guide through life.

What about Hughes and Keen? Where do they fit in? Both are distinctly not medieval or French, and neither is an economist. Yet Langston Hughes reminds us through his eloquent poetry of what motivates all of mankind—American, Chinese, English, Indian, Christian and Jew and Muslim:

Freedom
Is a strong seed
Planted
In a great need.

I live here, too.
I want freedom
Just as you.

And:

I have as much right
As the other fellow has
To stand
On my own two feet
And own the land.

The fundamental desire to have access and to have the opportunity to succeed drives all of non-Gaullist woman- and mankind. You can't run from it. You can't hide from it. But you, my learned friends, can channel it. This is what economists do! They provide the theoretical and the practical roadmaps for realizing humankind's dreams.

That is what I preach today from this pulpit. The disciplines of economics can set you free! Diploma in hand, you are charged with becoming the evangelists of a powerful gospel learned right here, in the Economics Department of the University of Texas. Go out into the world and transform it.

But let's get back to the moment. Today, 245 of you are about to receive your bachelor's degree in economics, one of you will receive your master's degree, and eight of you have earned the highest of academic accomplishment, your doctorate of philosophy.

Here is where Robert Earl Keen comes into play.

I know he is an Aggie. But he makes good music and is quintessentially Texan. He was spot on when he sang:

Flesh and blood
It turns to dust
[and] scatters in the wind.
Love is all that matters in the end.

Look around you. Those who love you are beaming. Your moms and your dads and your sisters and brothers and lovers and friends and classmates and your professors are the ones who got you here. They sustained you and stood by you. They paid your tuition. They taught you. They comforted you when you were blue. They drank with you when you were down, and they drank with you when you were up. (En vino, or at least, margaritas, veritas!) They pushed you and cajoled you and motivated you to cross the finish line.

They deserve a little gratitude.

I want you to stand up, turn around and look at this audience of supporters and say: "Thanks. I love you. You are all that matters in the end."

And I want you to hug 'em. Kiss 'em after you get your diploma.

Just do it.

Congratulations, graduates!

And, oh, one last pearl of wisdom: "Hook 'em horns."