

Speeches by Bob McTeer

Graduating into the New Paradigm Economy
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Thank you, Dr. Angel. This is certainly an honor for me. Congratulations to all you graduates.

I bring you some good news and some bad news: The bad news: education these days is harder to keep than to get. Let me put that the other way: education these days is easier to get than to keep. So you're not through yet, by a long shot. The good news: when you go out into the real world, there really is no such thing as algebra.

Before I go on, I want to recognize all the good people who helped make this day possible for you: all you moms and dads, grandparents, husbands, wives, significant others and spousal equivalents—the entire village. Thanks for your help and support of these graduates.

Recent Economic Performance

I'm usually expected to talk about the economy. Well, the economy is in great shape, especially for you job seekers. The inflation rate is at its lowest level in decades. (Below 2 percent over the past year.) The unemployment rate is also at its lowest level in decades (4.3 percent in July).

Sometimes economists try to be cute by adding the inflation rate to the unemployment rate to compute a "misery index." By that measure, we're less miserable than we've been since the 1960s. At least, we were before we put these robes on.

Yes, the job market's so tight it squeaks. Moms and dads, if they can't find a job in this economy, they ain't trying. And that even goes for liberal arts majors, as well. The conventional wisdom on liberal arts majors is that they're well rounded but not pointed in any useful direction. But that's less of a problem in a tight labor market. My take on liberal arts majors is that they've been preparing less for the beginning of their careers than for later. A slower start, perhaps, but a faster finish.

Take my own situation, for example. I recently participated in Ambassador's Weekend in Dallas, during which I spoke to 34 ambassadors plus the consular corps from different countries around the globe. The Dallas Fed recently cosponsored a conference in Buenos Aires on regulating newly privatized industries in Latin America. I recently visited with officials in Japan and Korea regarding the Asian economic crisis. My point is, in preparation for such activities, don't I wish I'd taken more of the humanities, languages and world history during the formal phase of my education? I pursued Spanish and German, but I never caught them. But I digress.

The New Paradigm Economy

The title of my formal remarks is "Graduating into the New Paradigm Economy." For you non-English majors, I'll define "paradigm" by recalling the familiar recipe for boiling a frog—not that I would ever do such a thing.

To boil a frog, you can't just drop him in boiling water. He'll jump right out. To boil a frog, you put him in cool water and gradually heat it to boiling. The frog doesn't jump out because he doesn't realize that his paradigm is shifting. I believe the economy's paradigm has been shifting so gradually that many people (like the frog) haven't noticed. But unlike the frog's, this paradigm shift is a good thing—for the educated and the skilled.

Yes, the new paradigm economy is cause for optimism, in my opinion, and I confess to being a "new paradigm optimist."

The most complete description of the new economy in all its ramifications was in the futurist Alvin Toffler's book, *The Third Wave*. His First Wave was the Agricultural Revolution, the Second Wave was the Industrial Revolution, and the

Third Wave is the Information Revolution.

The industrial era was ushered in by inventions that augmented muscle power and made physical work easier—things like the steam engine, railroads, gasoline motors and especially electricity. The information age began with the microprocessor, the tiny computer chip, which augments brainpower and mental work.

To quote from a 1994 *Fortune* magazine article, "The heart of the new economy is the tiny microprocessor, the transistor-packed silicon chip that combines with clever software and laser optics to make possible what we glibly call the information age." To that I would now add "the Internet," with all its implications.

I recently went to the bookstore (I know I should have gone to Amazon.com) and bought four new books about the new economy. Their titles are suggestive: (1) *The Roaring 2000s*, (2) *The Biotech Century*, (3) *Is Progress Speeding Up?*—the answer was yes—and (4) *Prosperity: The Coming 20-Year Boom and What It Means to You*.

These books are all very optimistic. I liked the last one in part because it was written by two *Wall Street Journal* reporters: and, as they acknowledge, optimism doesn't come easy to reporters. I also liked it because of its Chapter 10, entitled "Alan Greenspan, Optimist at the Top." If that's true, I'm proud to join him in his optimism.

The old economy was physical. It produced goods. The new economy is a service economy. It's like Yogi Berra described baseball, when he said that half the game is 90 percent mental.

Do you remember Dustin Hoffman as *The Graduate* in 1967? (Through Blockbuster, of course.) What did they whisper in his ear? (Not Mrs. Robinson but the guy at the party.) Plastics.

Plastics was the word for graduates in the '60s. What's the word today? The '90s word? I vote for *silicon*, as in chips.

It's true that Silicon Valley, computers and computer chips have been around for a while now. They're not that new. It's also true that the expected productivity gains have been slow in coming, until recently. But history teaches that revolutionary new inventions take time to have their full impact. The telephone, radio and electricity all took decades.

The new economy is high tech. Not just high electronic tech, but high biotech as well. Biotechnology. You know the old line: "If I'd known I was going to live this long, I would have taken better care of myself." With the biotech revolution that's under way, that's truer now than ever before. Just in the past few months they've announced new medicine to grow hair on your head, put lead in your pencil and cure cancer in mice. And don't forget Dolly, the cloned sheep. Poor Dolly is already yesterday's news. They're growing mice on the assembly line now.

Another important feature of the new economy—besides the revolution in technology—is the globalization of capitalism, which was hastened by the collapse of communism and the break up of the Soviet Bloc. Adam Smith won by a knockout over Karl Marx.

Another recent book purchase was *The Future of Capitalism* by Lester Thurow. Let me quote from the book's opening paragraph:

Since the onset of the industrial revolution, when success came to be defined as rising material standards of living, no economic system other than capitalism has been made to work anywhere. No one knows how to run successful economies on any other principles. The market and the market alone rules. No one doubts it...Capitalism's 19th- and 20th- century competitors—fascism, socialism, and communism—are all gone.

Only rheumatism remains. (That last sentence was mine.)

Myths of the New Paradigm

Many of the benefits of the new economy come disguised as problems, and many such myths have taken hold. Let me just mention some of the myths of the new paradigm economy.

Myth #1: Service jobs are not as good as manufacturing jobs.

Generally, not true. Food, clothes and shelter came first in our hierarchy of needs, but we're now able to afford a higher level of consumption, including better medical care, entertainment, travel and leisure. Most of the newer service jobs are more interesting and pay more. It is true, however, that the undereducated and unskilled who used to count on high-paying manual labor jobs are hurting. Bubba is giving way to Dilbert. Today, the world is a point-and-click world.

Myth #2: It takes two people working today to earn the same standard of living that one person could earn yesterday.

Generally, not true either. First, their standard of living is much higher today, although possibly more stressful. Second, both partners have always worked full time. Just ask my mother. At first, both worked on the farm. Then progress allowed one of them, usually the male of the species because the work was physical and brutish, to move into the market economy and take advantage of the productivity gains that come with specialization. Recently, further progress has given the other partner—the one more suited to brainwork—the option of moving into the market economy as well to gain similar advantages.

Myth #3: All the downsizing going on in corporate America is a sign of decline.

Not true either. Ironically, our progress can be measured by shrinking employment. It used to take over 90 percent of our population to produce our food. Now less than 3 percent produce more food than ever because of dramatic productivity gains over the years. Similar productivity gains are allowing us to increase manufacturing output to record levels without significantly increasing factory employment. The sons and daughters of factory workers are pointing and clicking their way to higher levels of prosperity.

The upside of downsizing is that fewer workers produce the old output so more of them can produce the new output. It's called the job churn and creative destruction. Ironically, the more government does to protect the old jobs, the slower the creation of new jobs. Employers are more reluctant to hire if they can't fire. That's why most of Europe has had unemployment rates twice our own. Their workers are the victims of policies designed to protect them. Ours have been protected, less by government but more by a dynamic, growing economy.

Life and Work in the New Paradigm

But the new paradigm economy is not so much about jobs as about living standards. In today's economy, GDP growth increasingly understates improvements in our standard of living. For example, the new medicines that prevent or cure diseases may well reduce GDP. Hospital stays (and illness and disease) generate a lot of GDP. GDP is probably also reduced by substituting e-mail for snail mail and travel, and automobiles that last longer. In short, shrinking and improving the world often shrinks GDP.

What will work be like in the new economy? What will the world of work be like for you? Some wit said that the workplace of the future will have only two workers: a man and a dog. (Or, a woman and a dog.) Anyway, the woman's job is to feed the dog. The dog's job is to keep the woman from touching the computer.

Your work life in the new economy will differ from that of your parents and grandparents. Your security will come not from a paternalistic lifelong employer, but from a healthy, ever-changing, dynamic, churning economy. You'll be more responsible for your own training, advancement, morale and retirement planning. Your identity won't be "where you work," it'll be "what you know" and "what you can do." You won't be allowed to feel that the world owes you a living.

As Mark Twain said, "The world owes you nothing. It was here first." And, as Yogi Berra might have said, "The world bats last."

It's time to quit now, but I haven't given you any advice yet. So let me close with Ted Turner's formula for success (Ted is a new paradigm kind of guy). Ted Turner says "Early to bed, early to rise, work like hell, and advertise." To that, my wife, Suzanne, would add, moisturize.

As Elvis would say if he were here—and who's to say he's not—"Thank you, thank you very much." And, from me, good luck.

