

## Speeches by Bob McTeer

### Commencement Address to Economics Graduates

University of Texas

Austin

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Congratulations. Today is the day you thought would never come. Thanks for letting me share it with you. I seriously doubt I'm the speaker you dreamed of having today—a president of a Reserve Bank. I'm your punishment for majoring in economics. I'll try to make it quick and painless.

Commencement speakers, like graduates, get lots of advice. Everyone wants in on it. The most common advice, of course, is, "Be brief and be seated." My wife, Suzanne, instructed me not to tell you to go out and change the world—it's such a commencement cliché. She has more positive advice, however, for you new career women: "Remember to moisturize." The main thing that separates Texas women from the animal kingdom, she says, is their ability to accessorize and use products. A little moisture probably wouldn't hurt you guys, either.

My assistant at the Dallas Fed puts her advice on the tag end of her e-mails:

Happiness is a journey, not a destination.  
Work like you don't need money.  
Love like you've never been hurt.  
Dance like no one's watching.

Last month I had lunch with the smartest woman in the world: Marilyn vos Savant, the "Ask Marilyn" columnist in Parade magazine. According to the Guinness Book of World Records Hall of Fame, Marilyn has the world's highest recorded I.Q. She is interested in economic education, of all things, and we met at a board meeting of the National Council on Economic Education. I told her I think economics is a good major for smart students, but if they are really, really smart, I'd rather they become doctors so they could do somebody some good.

She said, "Yes, but doctors help people one at a time, while an Alan Greenspan can help millions of people at a time." She has a point, although, ironically, she is also heavily involved in medical research, along with her husband, Robert Jarvik, the inventor of the Jarvik-7 artificial heart.

Come to think of it, Alan Greenspan is an excellent example of someone making a big difference by applying good economics. I don't have time to defend that assertion this morning. I'll just remind you how much the misery index has declined during the Greenspan years. The misery index, you'll recall, is the sum of the inflation rate and the unemployment rate.

I understand that some of you may have the miseries this morning because of the current bulge in the unemployment rate, but we're working on it. It's temporary. At least you will have the advantage in a weak labor market of a good degree from a good university.

Even though you majored in economics, my guess is that most of you have no ambition to be the next Alan Greenspan. Good. Diminishing marginal utility would set in. Or is it diminishing returns? Only a few of you, primarily the Ph.D. candidates, will ever have little cards with the title "economist" on them. Your cards will probably say something else. But if you are having buyer's remorse over your choice of a major, don't. While accounting or welding majors may have an easier time getting that first job—especially in the propane and propane accessories business—a major in economics will serve you better over the long run. You won't end up like the guy in the Austin Lounge Lizards song who is 40 years old and living in his mother's garage—because he majored in decoupage. He was probably the one from the shallow end of the gene pool, another song admits. My take on training in economics is that it becomes increasingly valuable as you move up the career ladder. I can't think of a better major for corporate CEOs, congressmen or presidents of the United States. You've learned a systematic, disciplined way of thinking that will serve you well.

The economically challenged must be perplexed about how economies work better, the fewer people they have in charge. Who does the planning? Who makes the decisions? Who decides what to produce? And how? And how

much? Where? When? By whom? And for whom? Etc. etc.

For my money, Adam Smith's invisible hand is the most important thing you've learned in economics. You understand how we can each work for our own self-interest and still produce a desirable social outcome. You know how uncoordinated activity gets coordinated by the market to enhance the wealth of nations. You understand the magic of markets and the dangers of tampering with them too much. You know better what you first learned in kindergarten: that you shouldn't kill or cripple the goose that lays the golden eggs.

You've learned other useful things as well. Like opportunity cost and marginal analysis and the importance of distinguishing between fixed, variable and marginal costs. You know that elasticity means more than the stretch left in your capri pants or boxer shorts. You know about equilibrium. And rents.

You know from Herbert Stein that if something is unsustainable, it isn't likely to be sustained. You know from Irving Fisher's example the hazards of forecasting the stock market, or anything else for that matter. Especially if it's about the future. The public looks askance at economists because they think of them primarily as forecasters. Don't let yourself get labeled a forecaster.

You have learned from offer curve analysis in international trade class that the terms of trade worsen for the more-eager trader. Of course, you already knew that truth when it comes to romance.

You understand why free trade is a good thing, even though you have difficulty convincing your dads and uncles. Go easy on your dads, especially you women. Your dads have had it hard these past few years. Have you noticed that as you have become more liberal here at UT–Austin, he has become more conservative? You might even define a conservative as a father with a daughter in college. Even Texas A&M. A dad with a daughter at UT–Austin risks becoming a right-wing extremist. Sixth Street may have something to do with that.

Your economics training will help you understand fallacies, non-intuitive outcomes and unintended consequences. In fact, I'm inclined to define economics as the study of how to anticipate unintended consequences. Most fallacies in economics probably are fallacies of composition. For the benefit of your little brothers and sisters, let me give an example of the fallacy of composition. You may be able to see better if you stand up—but not if everyone stands up. What's true of the individual may not be true of the whole. Keynes' paradox of thrift provides a currently relevant example: Individually, most consumers need to save more. But if all or many consumers start trying to save more, the economy will be in deep doo-doo. Doo-doo is a technical term that economists use.

Little in the literature, in my opinion, is more relevant to contemporary economic debates than what's usually called the broken window fallacy. Let me briefly review that for your families.

It seems that some teenagers, being the little beasts that they are, toss a brick through a bakery window. A crowd gathers and laments, "What a shame." But before you know it, as always happens, someone suggests a silver lining to the situation: Now the baker will have to spend money to have the window repaired. This will add to the income of the repairman, who will spend his additional income, which will add to another seller's income, and so on. You know the drill. The chain of spending will multiply and generate higher income and employment. If the broken window is large enough, it might produce an economic boom. Other catalysts to such booms might be a hurricane, a tornado or just about any government spending boondoggle. Whenever a government program is justified not on its merits but by the jobs it will create, remember the broken window.

Most voters fall for the broken window fallacy, but not economics majors. You will say, "Hey, wait a minute!" If the baker hadn't spent his money on window repair, he would have spent it on the new suit he was saving to buy. Then the tailor would have the new income to spend, and so on. The broken window didn't create net new spending; it just diverted spending from somewhere else. The broken window does not create new activity, just different activity. People see the activity that takes place. They don't see the activity that would have taken place. Plus, there's the waste of the broken window.

The broken window fallacy is perpetrated in many forms. Most of the time, jobs are invoked. Whenever job creation or retention is the primary objective I call it the job-counting fallacy. Economics majors understand the nonintuitive reality that real progress comes from job destruction. It once took 90 percent of our population to grow our food. Now it takes less than 3 percent. Pardon me, Willie, but are we worse off because of the job losses in agriculture? The would-have-been farmers are now college professors and computer gurus or singing the country blues on Sixth

Street.

If you want jobs for jobs' sake, trade in the bulldozers for shovels. If that doesn't create enough jobs, replace the shovels with spoons. Heresy! But you know that there will always be more work to do than people to work. So instead of counting jobs, we should make every job count. Don't waste any. We will occasionally hit a soft spot when we have a mismatch of supply and demand in the labor market. But that is temporary. Don't become a Luddite and destroy the machinery, or a protectionist and try to grow bananas in New York City.

Labor productivity is growing rapidly and substituting in the short run for employment growth. But as businesspeople get their animal spirits back and take advantage of historically low interest rates to invest in America's future, we'll have employment growth in addition to productivity growth. That's a recipe for prosperity.

It's almost time for most of you to go, but don't go far. I know Austin is a hard place to leave. Where else can you hear George Jones and the Platters on successive nights, as I did with my son in Austin last weekend? Where else can you create a generation of Dellionaires from your dorm room? Just think what Michael Dell and Bill Gates could have accomplished if they had gotten their degrees. In economics. If the sky is the limit, remember no place has a bigger sky than Texas.

And enjoy your life. Remember, life is like a roll of toilet paper. The closer you get to the end, the faster it goes.

Let me leave you with Ted Turner's recipe for success:

Early to bed  
Early to rise  
Work like hell  
And advertise.

And don't forget to moisturize.

God bless Texas, and God bless America.