

COMMENCEMENT ADDRESS

VILLANOVA UNIVERSITY

MAY 21, 1974

DELIVERED BY

MR. DAVID P. EASTBURN, PRESIDENT  
FEDERAL RESERVE BANK OF PHILADELPHIA

There once was a man who, having reached restless middle age, vowed to devote his remaining years to a search for the meaning of life. Quitting his job and abandoning his family, he set out to consult the leading philosophers in the universities. After a long time, still dissatisfied, but now penniless and in ill health, he was told that on a mountain in Tibet was an ancient guru who certainly could give him the answer to his question. Working his way up the mountain, he came at last to a cave in which the old man sat in contemplation. Our friend approached him: "Oh guru, I have spent many years in search of you. Before I expire, will you tell me the meaning of life?" The guru held out his hands and spoke profoundly: "Life, my son, is a circle." The weary traveler was unimpressed: "I've forsaken my family, begged for a living, consulted with learned men throughout the world and all you tell me is that life is a circle." The guru responded with alarm: "You mean life isn't a circle?"

This harmless little story seems appropriate in our present setting. It reminds us all that hard as we may try to seek truth, we can never be certain that we in fact have it in our grasp. This certainly has struck home with me as I've participated in efforts to regulate the economy. I sometimes feel like the professor who used to bestow on each of his graduating classes this benediction: "You have been good students, and I want to thank you for paying attention most of the time. Before you leave, I want to say just one thing--at least half of what I've told you isn't true. That doesn't worry me. What worries me is that I don't know which half it is." I carry some of this uncertainty with me as I look at the kind of world into which you are entering.

You are entering very much of an economic world. You will be devoting most of your waking hours to making a living and consuming. You will be thinking and acting as Economic Man.\* Over the past 200 years, roughly since Adam Smith wrote his Wealth of Nations, Economic Man has thrived in our society. He has been given remarkably free play to act in his own economic self-interest. In the process he has achieved a level of affluence that Adam Smith could not have dreamed of. I believe that, despite his affluence, Economic Man will continue to strive for material gain. Textbooks tell us that human wants are insatiable, and as far ahead as I can see with any clarity this will remain true.

But Economic Man will not have everything his own way. The pursuit of material satisfaction will not be the only goal of life. You are entering an economic world, but it is an increasingly humane economic world. This is so because Social Man has smoothed off some of Economic Man's rough edges. The economy in much of the past 200 years has been an exceedingly harsh one. Children, minorities, women, the poor, often have been exploited and repressed. Even those who have escaped economic, social, racial or sex discrimination have frequently suffered degrading times of anxiety and unemployment. So Economic Man has been a harsh taskmaster to most of us at one time or another.

Economic history of the past three quarters of a century has been very much a chronicle of efforts to modify the inhumane and harsh aspects of the economy. In the first half of the period, society concentrated on modifying the extremes of economic exploitation--the strong gobbling up the weak.

---

\* This is a term invented long ago and used widely in economic literature. It does not necessarily indicate that all economists, including this one, are materialistic male chauvinists.

Laws such as those that prohibit restriction of trade or protect the right to strike are movements to that era. In the second, society has devoted much of its effort to eliminating recessions.

You will share the fruits of success in both directions. You will be protected in many ways that you will never know against the extremes of Economic Man's enthusiasm for acquiring wealth. You will never experience the depths of a great Depression nor are you likely to see much more than minor recessions. The economy right now is going through something which has aroused debate as to whether it should be called a recession or simply a downturn. Whatever it is called, it will be mild and short-lived.

Partly because of efforts to make our economy more humane, you are entering an economic world containing less old-fashioned discipline. The harshness of much of the past 200 years has, to a great extent, been a by-product of that kind of discipline. Horace Greeley once was asked how to discipline a dog that had acquired the habit of killing sheep. His advice: "Cut off his tail--right behind the ears."

Some groups enforced discipline on others. A list of working rules which appeared on the bulletin board of a British cotton mill 125 years ago provides an example:

Wages for Junior boys--up to age eleven--15 cents a week.  
Wages for Senior clerks--that is, those who'd been with  
the company for at least 15 years--\$2.50 a week.  
Working hours--eleven hours a day--reporting-in time, 7 a.m.  
and quitting time, 6 p.m.  
It was permissible to eat lunch between 11:30 and 12:00--  
provided that the worker continued to work.  
In cold weather a stove was provided but workers had to  
bring their own coal...and there was no tobacco...  
NO TALKING...that is, no talking after 7 a.m. daily  
prayers at which attendance was mandatory.

The behavior of the market system enforced discipline on many. It made a virtue of purging the economy of excesses. Recessions were regarded as bitter medicine we had to take for living it up too much. They were good for what ailed us.

But society is no longer willing to tolerate such a drastic remedy. It is unwilling to tolerate interruptions in the march toward a better material condition. It is on the way to outlawing recessions completely. In the process it has removed some of the old-fashioned discipline.

I have no regrets; but there is a price to be paid. Partly because old disciplines are no longer present, you are entering an inflationary world. Expectations are rising faster than the ability of the economy to satisfy them. Scholars have written recently about limits to growth. All of us, still more recently, have experienced one of these limits at the gas station. Yet there is still, I believe, a widespread failure to realize that we live in a world of scarcity. Galbraith was correct when he described ours as an affluent society, but he misled many into believing that we had forever overcome the problem of scarcity. The old saw is still good: there is no free lunch. The economy cannot satisfy all expectations, for all people, all at once. Until we discipline ourselves to this fact of life, we will have chronic inflation.

The dilemma confronting you, therefore, will be how to exercise discipline in a humane economic world. I believe there is a way. It is to combine disciplined economic policies with humane social policies. Inflation can be brought to heel with courageous monetary and fiscal policies--but,

unfortunately, at the price of unemployment. Innovative social policies, however, can move to protect the disadvantaged against the impact of unemployment. A negative income tax, welfare reform, liberalized unemployment compensation, education, training, and enforced anti-discrimination laws are some of these.

Such a two-pronged thrust can do much to meet the major concern of lower income groups--security against unemployment--and at the same time achieve a major goal of the vast middle class--security against inflation. Unless public policymakers come up with some such combination we are likely to see increasing discontent within both groups and confrontation between them.

It is said that the university graduate of the 1950's was essentially an Economic Man and that the graduate of the 1960's was more of a Social Man. I am told by my Establishment friends (sometimes with a trace of complacency) that graduates today are returning to greater concern with making a buck. I hope that you will be both Economic and Social Man. I hope that you will recognize the realities of scarcity but that you will work to use our scarce resources to improve the lot of your fellow man.

In short, there is more than one way to look at the world you are entering. As I read recently in the comics, if it is true that the early bird gets the worm, it is also true that the late worm avoids the bird. You will be spending much of your time in an economic world, but it is not the only world. Life may not be a circle, but it has many sides to it. Making a buck is only one.