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Remarks by

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Chairman, Board of Governors of the Federal Reserve System

at the

Commencement Exercises

of

New York University

New York, New York

June 3, 1983

This is a proud and happy day.

A proud day for NYU, which for 150 years has adapted its lasting educational mission to the changing needs of thousands of students.

A proud day for New York, so many of whose sons and daughters have passed through Washington Square on their way to lives and careers enriched by their experience here.

I know from personal experience, a proud day for you graduates, families, and friends.

And, of course, a proud day for me to be honored by NYU where I have many friends of long standing, including both your President, Dr. Brademas, who also serves as Chairman of the Board of Directors of one of my alma maters, the Federal Reserve Bank of New York, and my presenter, Dr. Kavesh, who for many years has been both friend and counselor.

The pagentry of this gathering itself tells the tale. You entered in colorful streams from three sides of Washington Square, led by traditional symbols of learning and experienced teachers. Collectively, you represent a wide variety of professional and cultural interests. Individually, you bring fresh minds and renewed vigor to the work of the world. What could be a more fitting reflection of the special role of New York and the University -- as a magnet for talent from all over the world, an example of strength from diversity, and an incubator of change and renewal.

I am told Bob Hope once started a commencement address by saying his job was to give sound advice about entering the real world. He summed up his theme in one word: "Don't."

It may have been funny when he said it, but today I suspect that line may strike a more serious note with some of you. Not so long ago, a college education was looked upon almost as a guarantee to the "good life." But today jobs for college graduates are not so automatically available. Both private and public institutions are under financial and competitive pressure. A steady climb up the career ladder may seem less certain.

But, of course, you cannot escape that real world -- even if some of you will defer the matter for a year or two while further equipping yourselves with graduate study. And my theme will not be Bob Hope's.

I am not about to deny the reality of too many years of recession and economic turbulence. But I am also convinced that, after the obvious difficulties of recent years -- indeed, partly because we have relearned some basic lessons in those years -- we have the makings of a new era of economic growth and greater stability.

My confidence does not rest primarily on the evidence we now see of economic recovery -- although that is a heartening reality. More fundamentally, some of the attitudes and behavior that underlay our difficulties seem to be giving way to healthier patterns.

In the mid and late 1960's, after two decades of unparalleled prosperity in the Western World, the notion spread that we had finally learned how to maintain reasonably steady growth and low unemployment -- that we could, as the saying goes, "count on it."

But in the process, we fell prey to a human failing -- we began to assume the answer instead of working at it. Those were the days when economists wrote learned dissertations on how much a college education was worth in dollars and cents -- while the college students decided grade standards should be relaxed.

Ten years later, when you seniors were freshmen, the vision had turned sour. The inflation rate was running at 1 percent or more a month, and we had higher levels of unemployment, too. We were in the midst of a doubling or more in the price of oil. Productivity growth had practically ceased. The average worker saw the real value of his salary check declining even though we had unprecedented increases in nominal wages. Speculation in real estate, gold, diamonds, and other so-called "tangibles" became the "in thing" with the investment crowd.

Much has changed since then. I'm not going to argue that you are entering any economic nirvana. Inflation is down and we can see signs of improving productivity. But those gains have come after severe recession, and we still hear doubts and uncertainty about how lasting the progress will be.

But I believe we are in the process of building habits and expectations that are consistent with greater stability and growth. Part of that process, I am told, has been reflected in a different mood on college campuses around the country. I suspect that mood has been amply reflected here -- a greater diligence and discipline in your study, a recognition that, in the end, a higher standard of living depends on our ability to work efficiently, to keep abreast of technological change, and to live with intense competition.

That change in attitudes is not confined to universities, and I believe there is much greater understanding that lasting prosperity requires a firm foundation of monetary stability.

I am reminded of that partly facetious commercial for an investment house that brags "They make money the old fashioned way. They earn it." I doubt that line would have struck so responsive a chord ten years ago.

Maybe the new economic challenge sounds exhausting and uncomfortable -- it's not the image of the "laid back" years. But let me assert that you will find that environment both challenging and invigorating -- and out of that process will come the increasing productivity and real incomes we all want.

Obviously, I'm in no position to offer guarantees along with my vision -- its realization will depend, in no small part, on the efforts of your own generation. And today, your stage will be larger -- and more complicated than ever before.

Today, we are reminded at virtually every turn that the relevant frame for action is, if not the whole world, then very large parts of it. Earlier this week we saw the political embodiment of that in the Economic Summit -- seven national leaders compelled to discuss their own nations' economic priorities in an international setting. In strategic and defense matters the point has long been self-evident. Anyone spending time in New York will recognize the internationalization of our cultural activities. At the more pedestrian level of what we eat, wear, and drive we could no longer escape "foreign" influence if we tried. And, of course, from the perspective of others, the "American" influence often seems even more overwhelming -- whether it is acid rain in Canada or the more benign and ubiquitous Levis.

I want to take just a few moments to suggest some of the implications of the "one world" economy in which we live. In recent years, ease of travel and instant communications have made it about as easy -- and maybe a little more exciting -- to lend money abroad as at home. For a while the process went smoothly, but over the past year the "debt problems" of a number of developing countries, particularly in Latin America, have burst into general attention.

At first blush, the problem may seem abstract and distant -- and certainly of more concern to others. But it takes only a moment's reflection to realize that a debtor in difficulty poses problems for his creditors as well. And the creditors of Mexico, Brazil, Argentina, Venezuela, and other countries in varying degrees of difficulty are the commercial banks of the industrial countries, with U. S. banks playing a particularly prominent role. Left untended, we could all too easily visualize a crisis that would reflect back on the capacity and willingness of those same banks to finance our own expansion.

Further reflection suggests that a country with a debt problem is not in a position to spend scarce dollars for more imports, threatening the livelihood of those involved in selling to it.

Mexico is a case in point. Between the end of 1981 and the end of 1982, U. S. exports to Mexico dropped by $11 billion. More generally, the slowdown in growth in 1982 in other countries dealt a severe blow to our export industries and made a major contribution to the depth, breadth, and length of our recession. Recall that today, about one-seventh of our entire output of agricultural, manufactured, and other goods is exported -- about twice the ratio of 20 years ago.

In that light, the effort to manage the international debt problem goes beyond vague and generalized concerns about political and economic stability of borrowing countries. The effort encompasses also the protection of our own financial stability and the markets for what we produce best.

In that perspective, I cannot share the reluctance expressed by some to provide, along with other strong countries, additional needed support to the international institutions -- particularly the International Monetary Fund -- that must be at the center of any successful effort to contain and manage the international debt problem. Relative to the potential benefits, the costs are minimal -- and we can all be encouraged that the relevant committees of the Congress have acted on the pending legislation.

But a successful effort to manage the problem goes beyond the capacity of international institutions alone, or as a practical matter governments and central banks. Commercial banks have themselves had to work with one another and the borrowers on an unprecedented scale. And that process, for all its difficulties, will have to continue not just in 1983, but for some time to come.

In the end, the resolution of the debt problems of Third World countries, no matter how different their particular circumstances, will rest less on financial legerdemain than on their ability to export their way back to financial health. They must sell their products abroad to earn the wherewithal they need.

They can't very well do that if we and the other industrial countries with the biggest markets close our markets to them. It is easy to understand an impulse toward protectionism in the face of worldwide recession and joblessness. To some degree, every country has yielded at the margin. But the time has come, with recovery underway, to draw the line, and yield no further.

That should be possible in a world of economic expansion -- and indeed the expansion that we and others in the industrialized world want would only be threatened by closing our markets. The lesson of history is clear -- if one major country turns inward, others will follow. In the end, the markets for all contract instead of expanding.

I could go on to describe other challenges to our prosperity -- issues that have international as well as domestic consequences. But rest easy, I won't. My point is simply that little we do of any importance at home is without effects abroad, and vice versa.

In those circumstances, the seemingly obvious direct effects of a particular action, when generalized among many countries and many participants, may have the opposite -- or at least a different -- ultimate result. It is the economic equivalent of Benjamin Franklin's immortal words -- "We must all hang together, or assuredly we shall all hang separately." That, quite simply, is the world in which you will be living -- it is a carousel you cannot stop.

In some ways, it is not a comfortable world, but it won't lack for challenge and excitement. In fact, it has something of the character that you must have sought in choosing NYU, in the middle of New York City, in the first place.

Here at Washington Square, and elsewhere in the University, you have experienced a diversity -- a diversity of background, of goals, of interests -- rare in any educational setting.

You know something of the problems -- and the satisfactions -- of living in a world metropole, at once unfeeling and competitive but also capable of human warmth and sustaining the highest levels of achievement. At its best, that learning experience blends into a sense of shared commitment and common concern about the larger whole.

To that extent, you have had a long head start in understanding the problems, and enjoying the satisfactions, of the real world. You will soon disperse -- physically and in your career paths. And as you do so, I hope you will retain the values of your shared university experience -- an appreciation of the larger framework within which you seek your individual goals, a spirit of analysis and independent inquiry, a respect for your neighbor's needs and his individuality, whether that neighbor be next door or in the next country. Our success, as a nation, as a city, as an individual can only be met as part of the larger common concern of humanity.

Members of the graduating classes, I have not perceived my function today as promising you a bed of roses. But it is a world where hard work, and courage, and human concern can be amply rewarded in more ways than you may now imagine. And I can also wish you a little luck -- for sooner than you realize it will be a world shaped not by my generation but by yours.

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