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For release on delivery
May 25, 1984
10:00 A.M., E.D.T.

Remarks by

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Chairman, Board of Governors of the Federal Reserve System

at the

Commencement Exercises

of

The Johns Hopkins University

Baltimore, Maryland

May 25, 1984

This is a special day; special for you in the graduating classes who have now surmounted all the hurdles; special for your families and friends, who on this of all days can take joy in feeling proud (and perhaps a sense of relief); and, of course, special for me personally. I won't claim an honorary degree from Johns Hopkins is better than the real thing. But it doesn't hurt one's feelings at all to have a relationship with this institution that has played so great a role -- a pioneering role -- in American higher education.

That tradition has been inspirational over many years, and I see nothing about me today to suggest Johns Hopkins himself would not be proud about what he has inspired.

Now a commencement address is a difficult art form. I know from experience that's true for the speaker. I suspect it's even more so for graduates, eager to get on with important business. Well, I can only try to get to the point.

I am well aware that central bankers have a particular reputation. It's not exactly one of bonhomie -- of light-heartedness. Rather, the image is one of caution, sobriety, discipline, realism, and skepticism -- somehow they all seem to come with the turf.

A friend of mine summarized it for me with a paraphrase from H. L. Mencken. He said: "Central bankers are like Puritans; you all have a haunting fear that someone, someplace may be happy."

I don't think Mencken thought of that remark as a compliment. But when I jokingly mentioned it in a speech recently,

it provoked a spirited defense of the Puritan ethic in a newspaper column. That made me think a bit, because the basic point the columnist made was close to my theme today.

He argued that the Puritans weren't against happiness -- they simply insisted happiness could only be found as a byproduct of hard work, and diligence, and thrift.

Those qualities, in the end, do of course drive economic growth; there really isn't a substitute. And while those Puritan characteristics may not sound very glamorous or exciting, we do, of course, like to enjoy the prosperity they engender.

America has long had a reputation as the land of growth and opportunity, and that was certainly true during the glorious decades -- economically speaking -- after World War II. In fact, that economic record was probably better than at any time in our history, both in terms of growth and stability. By roughly the mid-1960's, the notion began to spread that we had finally learned all we needed to know about how to maintain growth and low unemployment -- we could, as the saying goes, "count on it." And, as a nation, we began to emphasize other objectives -- clean air and water, safety, consumer protection, and others. All of those goals are worthwhile -- some of them are critical, but most of them will also be easier to achieve in the context of a strong economy.

In the process, I sense we fell prey to a human failing -- once we assumed that, as a society, we had the answers to economic growth and stability, we forgot we still had to work at it.

Those were the days, for instance, when economists wrote learned dissertations on how much a college education was worth in dollars and cents, as if going to college in itself provided an automatic ticket to the good life. And, at about the same time, college students themselves decided academic standards should be relaxed and that their studies were less important than political or social causes.

There was something exciting about it, but also something inconsistent. It mirrored a larger inconsistency in the world at large; we counted on economic growth, but we neglected what was necessary to achieve it.

Some years later, in the late 1970's, the economic vision of sustained growth and stability had turned sour. The textbooks used to say there was a simple trade-off -- we could achieve growth if we tolerated a little inflation. We believed it. But by the time you entered college, the inflation rate was running at 1 percent or more a month, and we had higher levels of unemployment, too. Productivity growth had practically ceased. The average worker saw the real value of his salary check declining even though we had unprecedented increases in wages and salaries, measured in dollars. The average American had begun to look to the inflated price of his house as his principal source of financial security instead of new savings. Speculation in gold, diamonds, and other so-called "tangibles" became the "in thing" with the investment crowd.

A lot has changed since then. We went through a difficult period of deep recession while you were in college. But we also have had a strong recovery, combined with the lowest rate of price increases in a decade or more. I'm not going to argue that we have entered an economic nirvana. We still hear doubts and uncertainty about how lasting the process will be, and there are some obvious threats and risks.

But I also believe we have come a long way toward building attitudes and expectations -- I should say restoring old attitudes -- that are consistent with greater stability and sustained growth for years ahead. Productivity is rising again. There is a greater sense of restraint on costs. Incentives for work have been improved. And, lo and behold, real incomes and real profits are rising once again.

The change in mood in the country, I am told, has been paralleled in a different mood on college campuses -- a mood that I suspect has been amply reflected here. There is a sense of greater diligence and discipline in your study. There is more concern about practical skills, about taking advantage of educational opportunities, about the world of business and commerce. All of that seems to recognize that, in the end, a higher standard of living, for an individual as for a country, depends on a willingness to work both hard and smart, to keep abreast of technological change, and to live with intense competition.

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 a dozen years ago.

To some, all that may sound dull, or exhausting, or uncomfortable -- it's certainly not the image of the "laid back" years. But that's not the conclusion I would draw. Rather, I suspect you will find the environment both challenging and invigorating, and out of that process can come much of the personal satisfaction we all want.

I'm not going to provide any guarantees to go along with that happy vision of more stability and growth. Lack of discipline in our federal budget policies is plainly one hazard. Inflation and its aftermath have left us with well-publicized problems in the international economic and financial order. There are still temptations to try to fool ourselves into thinking that inflation and excessive money creation are substitutes for productivity and work.

But we know those dangers, and with intelligence and courage can deal with them realistically. Those still fresh memories of the disappointing 1970's and of recession should spur us on, and I suspect you leave college with a more realistic appreciation of what is necessary -- and better prepared -- than your counterparts a decade ago.

Lest all this be interpreted as praise for a materialist -- as well as a Puritan -- ethic, let me broaden the frame of reference. We are not only, or even primarily, "economic" men

and women. In a world still filled with overriding questions of how to keep the peace in a nuclear age, with social injustice, with the challenge of making democratic government effective government, with the continuing needs of the human spirit, there is a lot to do beyond a concern about one's standard of living.

I would only argue that those challenges, too, will not yield to the approach of dilettantes or to emotion not disciplined by professionalism, by respect for technical facts, and by a knowledge of history; by -- in a phrase -- informed and slogging work. As one aspect of that, I would urge upon you that dealing seriously with the problems of the body politic on a local, state, or national level -- as a profession or part-time -- can be a fascinating challenge, worth a lot of inevitable frustration.

I know when I was in college and graduate school, a career in the foreign service or in some of the great domestic departments and agencies was considered by many a natural professional objective, a means by which those able and interested in government could expect over time to gain satisfaction and ultimately a reasonable measure of prestige from constructive public service. No doubt people in government today tend to be drawn from a wider spectrum of personal and educational backgrounds, which in itself can be good. But I also sense there is less enthusiasm among graduates for a career in the civil service, or in government generally. Certainly many

remain strongly attracted by public policy issues, and they want to deal with them. But I am also struck by how often talented young people interested in problems of government tell me they think the best thing for them to do is to go to Wall Street, or to a law firm, or to a bank, make some money, and then think later about how they might enter government at a "policy level" position when they have both financial security and the possibility of influencing policy.

That sounds fine. But I also wonder how many will really do it -- or whether they will spend their lives railing at the "politicians" and the "bureaucrats."

I strongly believe we would help the cause of effective government if we attracted more of our best into a career in government. I see no other way we can be assured the high degree of professionalism, of responsiveness, and of continuity we are all going to need.

How we work toward that result is a large question, the answer to which is dependent on much more than the personal inclinations of college graduates. But it should be addressed, because we can't afford to see the well of talent and effectiveness in government depleted over the years. But, as things now stand, too often we see the best leave prematurely. Too few of those with potential are willing to enter at the bottom, to stick with it, and to seek, ultimately, the satisfaction of contributing directly to making our government work better.

Maybe that's special pleading from a grey haired itinerant civil servant. I recognize that a career in public service is not going to be everyone's "thing." There are many other ways to contribute -- in the arts, in education, in our churches, most important, in our families. I must also insist that a full life -- to me -- implies time for fishing (or for its equivalent if there is one) -- and for a beer with old friends. And while you're doing all that, I hope you dream a little, and when the instinct is strong, don't be afraid to take a chance. After all, when someone asks you to talk to a graduating class, you're going to want to have more to reflect upon than your business careers and the size of your bank balance.

Central bankers are sometimes accused of doing too much preaching to others about how they should behave, and I don't want to contribute any further to that reputation. But let me end with one thought.

I'm told Bob Hope once delivered a brief commencement address. He allegedly answered the time-honored question about entering the real world with one word -- "Don't."

Well, you can't avoid it, and you have better choices.

I would rather draw my inspiration from another source of great philosophy, Peanuts. A few years ago, there was a classic Lucy-Charlie Brown dialogue.

Lucy, in her psychiatric role, was talking to Charlie. She said that on cruise ships there were two kinds of people --

those who faced their deck chairs forward, because they wanted to see where they were going, and those who faced their deck chairs backwards, because they were interested in where they had been.

"On that great cruise ship of life, Charlie Brown," she asked, "which way will your deck chair be facing"?

"I don't know," Charlie responded. "I can't get mine untangled."

Well, education is, in a sense, learning from the past. College graduation is a time to get the chair untangled. And as you look forward to the new challenges, a sense of realism and hard work to combine with your natural idealism is going to stand you in good stead.

Sooner than you realize, the world will be shaped by your generation, not mine. All I can do is wish you bon voyage on that great cruise and good luck. And, we can look ahead to those reunions -- in spirit or in the flesh -- when we can also afford to look back and say we have at least tried to climb the mountain.
