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'Growth Comes Through Change and Causes Change'

The David McCord Wright Lecture

Presented by Bob McTeer

President, Federal Reserve Bank of Dallas and Former Student of Professor Wright

I'm both pleased and honored to give the David McCord Wright lecture. *Pleased* because it brings me home to Georgia—to the scene of the crime, so to speak. Lewis Grizzard spoke for me when he titled one of his books *If I Ever Get Back to Georgia, I'm Gonna Nail My Feet to the Ground*. I know the feeling.

I'm *honored* because the first David McCord Wright lecture was given by my friend and senator, Phil Gramm. Phil and I were in graduate school here together in the mid-1960s, and he was the quarterback of our touch football team. (I think he owned the ball.)

I'm proud of Phil because I know the brand of free enterprise economics we learned here, and to my knowledge he has never sacrificed his economic principles to political expediency. Not even while running for president. Which may be why he lost.

But most of all, I'm honored because of the man this lecture remembers.

David McCord Wright was the most distinguished member of the Georgia economics faculty in the early and mid-'60s. That's saying a lot since Professor Timberlake was also here then, but then he had many more years to catch up. Following Professor Wright's death in 1968, two of my classmates, John Godfrey and Mark Jackson, wrote a wonderful essay about him as economist and teacher and compiled a bibliography of his publications, which would choke a horse. I can't improve on John and Mark's work, so I've just made copies for everyone.

I had Economic Growth—Econ 606—under Professor Wright. I know that because, more than 35 years later, I still have the notes. I found some evidence of another course, but it was inconclusive. I was his teaching assistant for two quarters, the limit allowed by my fellowship. He lectured a day or two a week to a large economic principles class in the old C-J auditorium. The other days, another assistant and I split the class to interpret, elaborate and fill in the blanks. It helped greatly that Professor Wright had written the textbook.

In retrospect, I'm not sure that Professor Wright was eccentric, but he seemed so at the time. He'd had facial surgery, which caused him to talk out of the side of his mouth. And he wore a hearing aid, which sometimes caused him to talk too loud, augmenting his natural exuberance. When he wanted privacy, he would close his office door and turn off his hearing aid so he couldn't hear me knocking. I hope I wasn't the only one he did that to.

Professor Wright would give startling—seemingly off-the-wall—answers to questions, answers he appeared to have saved up for years, just waiting for the right sucker to come along. (*Sucker* was a word he used a lot.) His oddball answers were oddly thoughtful and appropriate. He was teaching us to think about old things in new ways. Today's cliché calls it "thinking out-side the box." He left inside-the-box thinking to others. In truth, I doubt he could have found the box.

I was good at listening to lectures, taking notes, anticipating test questions and giving the right answers. (Spell that r-i-g-h-t.) But the right answer wasn't always the Wright answer (spelled W-r-i-g-h-t). Many of his questions didn't seem to have answers. It was more an exercise in thinking, and like country singer David Ball, I had a "thinking problem." I needed a 12-step program for it, but what Professor Wright gave me felt more like shock therapy.

Since our questions and answers rarely jibed, I usually felt vulnerable and off balance around him. The few times I made a good impression, I wanted to disappear for a while so it would last. I later felt the same way about some of my bosses.

Professor Wright was a machine when it came to publishing. The thing about him, and Professor Timberlake, was that most of his insights seemed publishable, while I could hardly imagine having a publishable thought. My great fear was becoming an assistant professor somewhere in a publish-or-perish environment—which was everywhere, as far as I could tell—and never publishing. The great economist Fats Domino pretty much captured my fear in "Ain't That a Shame": "What I'm gonna do, is hard to tell. I'm not gonna kill myself, but I might as well." I solved my publishing problem, however. As president of the Dallas Fed, I have my own print shop.

I'm revealing my early demons because some of you students may worry about the same sort of things. The good news is, you get over it. It may just be an age thing. My problem was that I thought every thought had to be a deep thought—important, original and world-changing—and I didn't feel up to it. All the good thoughts had already been taken, I thought.

I no longer feel that way. I didn't start thinking deeper; I just lowered my sights. ("Aim low boys; he's riding a Shetland.") My fear of deep thoughts may have faded when I first heard Jack Handey's deep thoughts on *Saturday Night Live*. My favorite is this one: "The other day I got out my can opener and was opening a can of worms when I thought, 'What am I doing?' " (I also like, "I'd rather be rich than stupid." A good one for students: "When you go in for a job interview, I think a good thing to ask is if they ever press charges.")

Find Your Own Truth

Back to originality and creativity. I came to realize that our different experiences give each of us a unique prism for viewing the world. Therefore, originality is built in if you keep your own perspective. The trick is to embrace and nurture it and resist those well-meaning people who try to fit you into another mold.

For example, the Dallas Fed has excellent economists, from the best schools, who publish in good journals. They're smarter and certainly more scholarly than I am, but I'm not afraid to pick their brains and sort through all their "on the one hand" and "on the other hand" ruminations to find the truth. Not their truth, but my truth—through my prism. So students, don't worry. You're dumb and unoriginal and uncreative now because you're young. You'll get over it in time.

Frankly, I wish all you students were in medical research trying to cure and prevent diseases, or in electrical engineering learning to make things better, faster and cheaper in our new economy. But I suspect some of you may be in economics or business, and you may have wondered if you'll ever do the world any good in your chosen profession. I used to wonder that when I was in your place. Especially after my mother got a phone call shortly after I got my Ph.D. Her friend asked if I was a doctor now. She said, "Yes, but not the kind that does anybody any good."

If *you* wonder if you'll be doing anybody any good while you're doing well in your career, remember this reassuring thought, courtesy of Adam Smith and company: if your income is high in a market economy, you must be selling something people are willing to pay for. If your income is really, really high, they must value it a lot.

My worry about not getting published, and thus perishing, was tied to my fear of not being good enough to work on the leading edge or frontier of economics. But I finally realized that we also serve who work behind the lines to bring others closer to the frontier. I think of our economic education efforts at the Dallas Fed as trying to make the world safe for sound economic policy, especially sound money.

As an example, take the issue of free trade. I didn't invent the concept of comparative advantage. Adam Smith did the absolute part, and David Ricardo made it relative, or comparative. But although virtually every economist on the planet believes in comparative advantage and free trade, it's always been a hard sell with the public.

Not having the right stuff to be a Smith or Ricardo, I identify more with Frédéric Bastiat, the French pamphleteer who defended free trade with satire. He's the guy, you'll recall, who wrote the petition asking the French Parliament to pass a law shutting out the sunlight because it unfairly competed with the candle makers. Protectionism couldn't stand up to that.

The next-best piece of free trade rhetoric I've found comes from Henry George, who pointed out that protectionists want to do to their country in peacetime what the country's enemies want to do to it in wartime—close the border to imports.

Economists can't seem to find the right rhetoric for convincing non-economists that free trade is a good thing. Everybody thinks it's a trick. Witness Seattle. What was all that about, anyway?

Even Abraham Lincoln, who got most things right, got trade wrong. He's alleged to have said something like this: "I don't know much about the tariff, but I know this. If I buy a coat in England, I get the coat and England gets the money. If I buy it in America, I get the coat and America gets the money." What he failed to consider was that England would buy the cotton in Georgia to make the coat, maybe cotton from Billy Joe Hopper's farm on Highway 411, between Ranger and Oakman—close to the Red Bud road. I picked a little cotton on Billy Joe's place when I was about 10 years old.

I've been looking for the right free trade rhetoric for a long time. During the debates before NAFTA was passed, Merle Haggard recorded a song called "Rainbow Stew." I loved the title and thought "Rainbow Stew" was the answer to my prayers. Listen to Merle's version of utopia:

> When they find out how to burn
> water and the gasoline car is
> gone,
> When an airplane flies without any
> fuel and the sunlight heats our
> home,
> One of these days when the air
> clears up and the sun comes
> shining through,
> We'll all be drinkin' that free bubble
> up and eatin' that rainbow stew.

I decided I'd turn free trade into rainbow stew, using Bastiat's brand of satire. I penned several letters to editors titled "Free Trade and Rainbow Stew." I questioned whether old Merle had thought the thing through. If we didn't want *cheaper* goods from Mexico, surely we wouldn't want *free* goods like the water and sunlight powering our cars and heating our homes. Think of all the jobs involved in producing that fine West Texas Intermediate crude that would be lost to competition from sunlight and water!

Job counting is a major source of bad economics. To put the job-counting fallacy into perspective, I like to point out that you can create lots of jobs by substituting shovels for bulldozers. If that's not enough, substitute spoons for shovels. Jobs are precious things—too precious to waste on unnecessary or inefficient work. Our goal should be to eliminate all the jobs we can do without so those people can produce something new. Yet how many projects do you see justified not on their merits but on their job count? When job creation is the main justification for a project, hold on to your wallets.

The *Wall Street Journal* and *New York Times* turned down one of my "Rainbow Stew" pieces without comment. The *Washington Post* passed on the grounds that its readers might not realize the piece was meant as satire. Given their service area, they were probably right.

I already had other versions pending at the Dallas and Houston newspapers, so I sent a shortened version of "Free Trade and Rainbow Stew" to the paper in Austin, Texas—home of *Austin City Limits*—where Merle Haggard might carry more weight. It worked, sort of. The Austin paper ran it but changed the title. Don't you just hate that? I'd changed the article to save the title, and they printed the article and changed the title. So much for my brief fling as a Southern-fried French satirist. ("Fried French"—Did I say that right?)

My point regarding operating behind the front lines is this: if you're able to convince doubters of free trade's merits (or an equally worthy cause), you will have made the world a far better place. If you can teach people some of what economists so agree on that they never talk about it anymore, you may do more good than most of those out on the frontier working on the econometrics of minutiae.

Free trade, of course, isn't the only easy recipe for rainbow stew. France recently shortened the legal workweek as a make-work scheme to increase employment. Lest we feel smug, remember that we're about to raise once again the wage below which employers are not allowed to hire willing workers, which means that people who can't contribute that much to the firm won't be hired.

We are just now getting rid of another Depression-era law, one that penalizes Social Security beneficiaries for working. I called for repeal of the penalty in an op-ed piece in the *Wall Street Journal* last May, which obviously made the difference. This time the editors not only changed my title, but they added a cartoon of a broken-down old man with no teeth and a cane—not exactly the image of the mature worker I had in mind.

Next on my common-sense agenda is liberalization of immigration laws to relieve our tight labor markets, especially an increase or removal of the quotas on the skilled workers needed to fill vacant high-tech jobs. Opponents of this measure apparently would rather force U.S. companies to move abroad to access foreign workers or reach them through cyberspace. We ought to be out shanghaiing these people to bring them here. Instead, we shut them out. Other countries worry about their brain drain out—to the United States. We—the beneficiary—worry about the brain drain in. I'm not making this up.

So, what about the battle in Seattle? I have trouble understanding how barring voluntary trade with citizens of other countries will improve their environment and raise their living standards enough to eliminate child labor. For that matter, I'm not real sure where the harm is in genetically engineering tomatoes and other veggies to be bigger, better and pesticide-free. Should we apologize for the fabulous productivity growth that enables less than 3 percent of our population to grow more food than 90 percent used to grow? Was that also a bad thing? Is now the time to stop progress? No, Martha Stewart and I think it's a good thing. But I digress.

Wright Was Right

It's time now to start my speech. I only have two hours. Its title is "Growth Comes Through Change and Causes Change." If that phrase isn't on Professor Wright's tombstone, it should be. I probably heard him repeat it a thousand times and probably rolled my eyes the last few hundred. I regret those eye-rolls. I've been on the receiving end of eye-rolls myself and know how they feel. Another deep thought for the students soon to enter the world of work: eye-rolling the boss is not a smart career move.

Back to "Growth comes through change and causes change." It's important that you know my appreciation of this phrase was not conveniently conjured up for this lecture. Listen to what I wrote about the job churn in the Dallas Fed's 1992 annual report:

> One of my college professors, David McCord Wright, used to say "Growth comes through change and causes change" so often that I quickly learned to tune him out. Only recently have I come to appreciate the wisdom of his mantra. Joseph Schumpeter also captured the essence of this message long ago in his classic description of "creative destruction." It is natural during recession and sluggish recovery to worry about job losses. We read almost daily of layoffs and downsizings at familiar Fortune 500 companies. We rarely read of sizable numbers of new jobs being created. Yet, in recent months, we've had net job growth. While the net growth may be small, the underlying restructuring and revitalization are anything but. The churn is revitalizing our economy.

Wright was right about growth and change. I never doubted it, but

I did think it could go without saying. Now I'm not so sure. Growth and change are much in the news these days. As you know, we are now in the longest economic expansion in our history. After a slow start, it gained momentum at a time when expansions usually slow down. After about two decades of thinking that 2 to 2.5 percent was as fast as our economy could grow without inflation accelerating, we've now averaged over 4 percent growth for more than four years while inflation has decelerated. The inflation rate has been below 2 percent by most measures for a couple of years now. The unemployment rate has also declined to 4 percent—its lowest level since the 1960s, when the composition of the labor force was very different.

It's nice to have more output because of more workers or workers working more hours. But productivity, or output per hour worked, is what really boosts per capita incomes and living standards. Productivity growth declined in the early '70s, and for two decades it averaged barely above 1 percent per year. But that changed in the '90s, especially the second half of the decade. Productivity growth has doubled or tripled since 1995, depending on the measure. By the most conservative measure, productivity increased 3.2 percent in 1999 and increased at a 6 percent rate in the second half of the year—actually pulling down unit labor costs. How's that for a new economic paradigm?

What happened? Well, technology is the main thing that happened—mainly information technology and the Internet and, increasingly in the future, biotechnology. Globalization, in its many aspects, is another. So is the collapse of communism and hard-core socialism, the collapse of the Soviet Union and the Eastern bloc, freer trade and investment, deregulation, privatization and so on.

Some people, on the other hand, think nothing much fundamental has changed, that we've just been lucky. Economists, as you know, call good luck "positive supply shocks." Whatever the causes, and whether they're temporary or lasting, a really big change is occurring. Really big growth. And growth that seems—at least for a while—less inflationary. As we've all heard somewhere, growth and change go together: "Growth comes through change and causes change."

A debate is under way over whether we now have a "new paradigm" economy. I say we do. I wrote an op-ed piece for the *Wall Street Journal* last August spelling out my views. I titled my piece "Out on a New-Paradigm Limb." Naturally, they changed my title—to "Believe Your Eyes; The New Economy Is Real." The "believe your eyes" part came from my having quoted two of my favorite economists: Yogi Berra and Richard Pryor. Yogi is alleged to have said, "You can observe a lot just by watching." And Richard once asked, "Who are you going to believe? Me or your own lying eyes?"

"Believe your eyes" is my answer to those who ask, "Can this good performance continue? Is 4 percent growth without accelerating inflation sustainable?" We've been growing "above potential" and sustaining the unsustainable for over four years now. When does the bell ring? The following is usually said as a joke, but it's almost as if skeptical economists are saying that it may work in practice but questioning whether it will work in theory.

As a footnote, let me say that I retrieved my lost title, "Out on a New-Paradigm Limb," and made it the title of the president's letter in the Dallas Fed's 1999 annual report. The annual report also has a great essay by our chief economist about the technology and economics of the new economy. I have a few copies here. You can find both on our web site: www.dallasfed.org.

An Old-Fashioned Economist

I won't say any more about the substance of the current debate. As I said, I have only two hours. It might be interesting to speculate whether my maverick views—the views that put me out on a new-paradigm limb—have any connection to David McCord Wright's teachings. Of course, he died in 1968 and never got to see the awful '70s or the recovering '80s, much less the Goldilocks '90s, otherwise known as the Greenspan–McTeer era. ☺ I found a short quote from him in my old class notes that may give a clue. He said, "The longer a forecaster is successful, the less reason there is for following him. Time marches on and his model becomes obsolete."

Of course, Professor Wright was an old-fashioned economist who never had formal mathematical or econometric models of the economy. He never had to program in a Phillips curve or a NAIRU (nonaccelerating inflation rate of unemployment) that implied fixed relationships. He never saw the economy in a mechanistic way, where you could pull Lever A and have one thing happen and pull Lever B and have another thing happen. His economic world was populated by people—people who change in response to their changing environment. He was comfortable with ambiguity. Regarding ambiguity, I found the following quote from the end of the eight-page, single-spaced, legal-sized syllabus for his principles course:

> If this outline seems to open up more problems than it solves and to be irritatingly vague, that is because the problem itself is full of imponderables. At least, you are now conscious of that fact.

I decided a long time ago that the smartest person doesn't always have the best answers. God made a more level playing field than that. I now wonder if the best economists always have the advantage in interpreting the economy. Is it possible to be too good an economist? So good that you are lulled into sticking with the old right answers and missing the changing paradigm? I may be kidding myself and trying to rationalize my own shortcomings, but I believe most of you will agree that you wouldn't want to have *only* economists on an important policy-making board.

Many people agree with my new-paradigm views, but not many economists. I think most of the people at *Wired* and other technology publications agree, along with the technology community in general. Many businesspeople agree. My views on pricing power in the new economy were influenced by the businesspeople on my own board of directors. Even a few maverick economists agree with me, but not many mainstream, establishment economists—certainly not those from large Northeastern universities that don't have good football teams.

Time will tell who's right and who's wrong. And whether those who were wrong were wrong because they knew too little or because they knew too much for too long. Either way, I treasure the memory of David McCord Wright and others at the University of Georgia who tried to teach me to think for myself and whose personal examples helped give me the courage to go out on limbs and endure the rolling of eyes. *Go Dawgs!* ■

This is dedicated to Anna, who will—as Hank Williams, Jr. puts it—carry on the family tradition at the University of Georgia.

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David McCord Wright
(1909–1968)

The following biography is taken from "David McCord Wright: Economist and Teacher," by John M. Godfrey and Mark Jackson, published in the May 1968 issue of Georgia Business, *Bureau of Business and Economic Research, Graduate School of Business Administration. Godfrey and Jackson include a bibliography of Wright's publications: 9 books, 5 monographs, 69 articles, 18 papers and discussions, 14 notes and comments, and 27 reviews.*

On January 7, 1968, the economics profession lost one of its leading members, the University of Georgia one of its eminent professors, and the State of Georgia one of her prominent native sons.

David McCord Wright was born in Savannah, Georgia, on August 1, 1909. He was the son of a University of Georgia graduate (class of 1891) and former president of the Savannah Bank and Trust Company, Anton Pope Wright, and Hannah McCord (Smythe) Wright. Professor Wright was a graduate of Savannah High School. He attended The Citadel, the Military College of South Carolina, in 1926–27. In 1927 he transferred to the University of Pennsylvania where he studied architecture for three years. In 1935 he obtained his LL.B from the University of Virginia and was admitted to the Georgia Bar Association. He became an attorney with the Reconstruction Finance Corporation in Atlanta.

Professor Wright continued his education at Harvard University, receiving his M.A. in Economics in 1939 and Ph.D. in Economics in 1940. His dissertation, *The Creation of Purchasing Power: A Study in the Problem of Economic Stabilization*, received the David A. Wells Prize for the year 1940–41 and was published by the Department of Economics of Harvard University.

Professor Wright began his distinguished teaching career at the University of Virginia in 1939. He was Assistant Professor of Commerce and Business Administration from 1939–42 and Lecturer in Law in the University of Virginia Law School in 1940 and 1947–55. He served at Virginia as Associate Professor of Economics from 1943–46 and Professor of Economics from 1946–55.

During 1953–54, Professor Wright was at Oxford University, Christ Church College, as a Fulbright Lecturer. From 1954 to 1955 he was a Rockefeller and an Earhart Fellow in Europe. He served as William Dow Professor of Economics and Political Science at McGill University from 1955 until he was appointed Professor of Economics at the University of Georgia in July of 1962. During the summers Professor Wright frequently lectured at Columbia University (1946, 1950, 1952, 1953, and 1955), the University of California (1947), and Harvard University (1948, 1951, and 1965).

Among his other duties, Professor Wright acted as an economic advisor to the United States Government National Resources Planning Board and lectured in 1943 at the United States Army School of Military Government. In addition he lectured at the Freedom Institutes of Claremont Men's College, California (1955), and Wabash College, Indiana (1957). The United States Department of State appointed Professor Wright as Lecturer with duties in France and Germany during the summer of 1956 and in France in the summer of 1959. In June, 1963, he attended the National Strategy Seminar of the U.S. Army War College. The Federal Reserve Bank of Atlanta appointed him to its staff in September, 1963, where he served for two years as a consultant on a part-time basis to the Bank.

Professor Wright was a member of the American Economic Association, serving on

its Executive Committee from 1952–55; the Southern Economic Association, being elected president in 1950; the Royal Economic Society; the Canadian Institute of International Affairs; and the Canadian Institute of Public Administration. He was an active member of the Mont Pelerin Society. In addition, he was a member of the English Speaking Union and a life member of the Huguenot Society of South Carolina.

His other memberships included Phi Delta Phi, Alpha Kappa Psi, Beta Gamma Sigma, and Delta Psi. He was also made an honorary member of Omicron Delta Epsilon. He is listed in *Who's Who in America* and the *International Who's Who*.

Professor Wright is survived by his wife, the former Caroline Noble Jones of Savannah, and three children: Anna Habersham Wright, Anthony Pope Wright, and Peter Meldrim Wright. In addition to their home in Athens, the Wrights maintained residences in Cotuit, Massachusetts, and Savannah, Georgia. ■