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Remarks

J. Alfred Broaddus, Jr.
President
Federal Reserve Bank of Richmond

at the

Commencement Ceremony
Hampden-Sydney College
Hampden-Sydney, Virginia

May 9, 2004

President Bortz; distinguished members of the faculty and board of trustees; proud, satisfied – and probably relieved – parents; guests; and – most importantly, of course – members of the Hampden-Sydney Class of 2004: thank you for your welcome and for the privilege of joining you on this memorable day. An especially emphatic thank-you to all of the mothers here today who are sharing their special day with us. I last attended a Hampden-Sydney commencement in 1997 when my son Chris graduated. I know that the parents of the young men we are about to recognize will relish this occasion just as Margaret and I did several years ago.

Much has changed since that commencement day in 1997. That observation is at once obvious and quite substantive. In the late spring of 1997, we were at peace, or at least most Americans thought we were. The economy was doing extraordinarily well. Gross domestic product, which is the best measure of overall American economic activity, was growing at a healthy pace. After rising to alarming levels 17 or 18 years earlier, the inflation rate had declined to only about 2 percent. Partly because of this, interest rates had declined to levels not seen since the 1960s.

Of perhaps greatest interest to the class of 1997, though, the job market in 1997 was very tight and getting tighter. The unemployment rate was at about 5 percent and headed downward to a bottom below 4 percent a few years later, and our business contacts at the Federal Reserve kept telling us how difficult it was to find workers, especially skilled workers. In this economic environment, the class of 1997 could look forward to finding jobs readily. Indeed, the main problem for many graduates that year would be choosing among several attractive opportunities.

As we reflect on events since 1997, I am reminded of Bob Seger's line in one of his songs where he says that he "...wished he didn't know now what he didn't know then." The seven years since 1997 have been at times a stormy passage. They included a day – January 1, 2000 – that was anticipated with much anxiety but passed smoothly. They included another day – September 11, 2001 – that was not anticipated but, sorrowfully, was one of the darkest days in American

history – a day that made it clear to all Americans that the complacency about our national security encouraged by the collapse of the Soviet Union was not appropriate.

At a much less damaging but nonetheless challenging level, the economy began to weaken in the middle of the year 2000, and has not yet regained its full potential strength consistent with price stability. While 1997 was one of several consecutive favorable years for the economy, there was also building in financial markets throughout the late 1990s an exuberance – you could even call it an "irrational exuberance" if you were so inclined – that eventually helped push business investment, especially in high technology equipment and facilities, several steps too far. This at least moderate investment bubble helped precipitate the downturn in the economy in 2001 from which we are still recovering.

Until recently, the recovery from the 2001 recession has lacked balance. Of special concern, while GDP growth accelerated nicely in the second half of last year, job growth lagged. I am sure this sluggish job growth has been a concern for the class of 2004 and your families. In the last several weeks, there have been encouraging signs of stronger overall business activity and, happily, a sharp pickup in job growth. Even so, entering the workplace will probably be at least a little more challenging for the class of 2004 than it was for the class of 1997.

At this point many of you may well be asking yourselves why the College invited a downbeat practitioner of what Parson Malthus called "the dismal science" to address this celebration. Let me assure you that while I think it may still take a little longer for the economy to regain its full momentum, far from pessimistic, I am enormously optimistic about the future and your prospects in the years ahead. Many people, even if they aren't outright pessimists, are suspicious of optimism. I once heard a skeptic define an optimist as the passenger who thought the Titanic was stopping in the middle of the ocean, in the middle of the night, to take on a fresh load of ice.

But I am optimistic about your prospects nonetheless. For 20 years between the mid-70s and the mid-90s, productivity in the American economy – the quantity of goods or the volume of

services an American worker can produce in an hour – grew at about a 1½ percent annual rate. Since then, productivity has grown at a 3¼ percent rate. And there is an excellent chance that productivity growth will remain high going forward given the advances in technology in recent years and the continuing absorption of these technologies by American businesses – by corporations, to be sure, but increasingly by smaller businesses and self-employed professionals as well. This may appear to be an unremarkable comparison of dry statistics, but it is hugely important. If productivity grows at its past century average of 2 percent over the first 15 years of your careers, GDP per capita will be about 8 percent higher in 2020 than if growth were to revert to the lower mid-70s to mid-90s rate I cited earlier. And if it grows at its recent rate of about 3 percent, per capita GDP will be 25 percent higher. Growth at these rates would mean many more jobs and better jobs. More broadly, it would mean greater opportunity for each and every member of this class to attain economic success and satisfaction.

Beyond economics, however, we are reminded daily of the risks America faces in the Middle East, Northeast Asia, and elsewhere in the world. It is indeed hard to be optimistic about prospects in the global arena if one watches CNN for an hour or so. I do not underestimate the dangers or the challenges, but our country has confronted equally serious threats in the past and prevailed. And just when we might be tempted to become discouraged, we hear about Pat Tillman. We were saddened by Corporal Tillman's untimely death, but his decisions and his actions, even prior to his ultimate sacrifice, affirmed that our most fundamental national values are alive and healthy. That affirmation lifts my spirit. And it makes me confident that we will weather these present international storms as we have weathered so many before. For this reason, among others, I am truly optimistic about your prospects, on grounds that transcend narrow economic considerations.

I know that many of you are assuming that you have finished with homework, at least for a while, but I have one more assignment for you. The assignment will take much time and effort to complete, but it is a required assignment that you must complete if my optimism about your

prospects is to be validated in the years ahead. The assignment is to address, more forthrightly and effectively than my generation has, the major challenges in the realm of public policy that, if not attended to, could undermine our economy and strain our social fabric. There are a number of these challenges, and I will mention two that concern me from my particular perspective as an economic policymaker.

The first is the federal budget deficit. I am not, frankly, terribly concerned by the present level of the deficit, since the economy is still operating well below its potential level despite the stronger growth of GDP and employment of late. What worries me, instead, is the prospective deficit a few years down the road when the baby boomers begin to retire and strain first the Medicare program and, later, the Social Security program.

Why should this matter to you here today? It matters because deficits are a symptom of substantial federal demands on the nation's economic resources. While the federal government does invest some of its resources in projects that are clearly in the public interest, when one cuts through the rhetoric, the bottom line is that at some point budget deficits reduce overall investment in the economy and hence reduce longer-term potential growth. Consequently, if they continue to build, they will diminish the longer-term improvement in living standards that you can expect for yourself and for your children.

The other issue I want to address is the growing disparity of income and wealth across American households and families, which will surely diminish our society's cohesion if the trend continues. I am well aware of all the caveats here. It is true that many people move up from lower-income categories to higher-income categories over their lifetimes. But many do not and the disparities continue to widen. There is much discussion of this trend, the risk it presents, and alternative approaches to correcting it. To me the best resolution seems obvious: much more robust educational opportunities for our young people – especially in lower-income neighborhoods – and for older adults as well. The key word here is "robust," by which I mean effective schools and other programs that truly educate and prepare people to add greater value

to the economy and earn higher real incomes in doing so. The need for significantly improved educational opportunities for all of our citizens is hardly late-breaking news. But this pressing need can't be stressed too often, especially in an era when rapid advances in technology are raising the skill requirements for more and more jobs. In my view, addressing the weaknesses in our educational system ranks close to the war on terrorism as an urgent national priority.

Those are the assignments I have for you. You must either complete them yourselves through direct hands-on involvement – an option I hope many of you will choose – or ensure that your elected national, state and local representatives do it on pain of losing the next election. Winston Churchill once said that “Sometimes it is not good enough to do your best; you have to do what’s required.” I think that remark applies in this case. Hampden-Sydney men have been part of the resolutions of compelling national challenges conspicuously and continuously since the American Revolution. I am confident that the class of 2004 will further enrich this distinguished and honorable tradition.

I join the College and all the families and guests gathered here this afternoon in wishing each member of the class of 2004 a safe and satisfying journey through the years ahead.

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