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Remarks

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

at the

Commencement  
School of Business  
Virginia Commonwealth University

Siegel Center  
Richmond, Virginia

May 22, 2004

Dean Sesnowitz; distinguished members of the faculty; proud parents and other family members; guests; and, of course most importantly, members of the Virginia Commonwealth University School of Business Class of 2004: thank you for your welcome and the privilege of sharing a few reflections with you this afternoon on this very special occasion. As accomplished students of business, you know that when a firm determines that a particular approach to some aspect of its business works in practice, it's a good idea to stick with the approach. The same is true in life more broadly. Sometime ago, the newspaper columnist Ann Landers asked her older readers who had enjoyed long and happy marriages to write in and share some of the secrets of their successful relationships. One reader from a small town in North Carolina wrote in and told Ms. Landers that the secret of his 63-year marriage was an agreement with his wife to go out for dinner and dancing twice a week, every week. She went on Tuesday; he went on Thursday.

There is a similar key to success in making commencement speeches: keep them short, and I will follow that rule here today. To use a concept from mathematics that is often applied in economics, brevity may not be a sufficient condition for a successful commencement speech, but it is definitely a necessary condition.

But while I may keep my remarks brief, I am nonetheless enormously impressed by what all of the members of this class have achieved in earning a degree from this School. I am impressed because I know from direct experience how good the School of Business at Virginia Commonwealth University is. I know and have worked with many members of your faculty for years. Perhaps even more importantly, your alumni are employed and play key roles at all levels of our Bank's diverse operations, and I can tell you without any exaggeration that they shine. Beyond this, the Bank has collaborated with the School in a variety of endeavors over the years. One such activity, highlighted in one of your recent newsletters, is the Bank's

participation in your internship program. We are very proud to have had at least this limited role in helping the School achieve its mission.

I'm also comforted to know that men and women with the high caliber business training and practical experience that you have had are entering the business world at this juncture. Calvin Coolidge famously said — or at least is said to have said — that the business of America is business. Sometimes that remark is recalled in a perjorative way as exaggerating the importance of business. But, in the aggregate, the daily business of business is simply allocating resources in our economy effectively to meet the needs and aspirations of American households and businesses, and, in a dynamic context, growing these resources. Consequently, if business isn't healthy, the economy won't be healthy. And when the economy isn't healthy, the strength of our society is likely to be stressed.

I think most people would agree that American business was, in fact, less than healthy in 2002 when the egregious behavior of some corporate leaders, and the financial and accounting professionals who supported them, produced the most widely publicized corporate governance scandals in recent memory. It appears that those involved constituted a small minority of the talented, industrious, and highly principled people who lead most American businesses. But the scandals seriously weakened the public's confidence in the integrity of businesses and business people generally. Fortunately, the disease was far from terminal, and the scandals are gradually fading from the public's consciousness — due in no small measure to the high standards of the vast majority of American business leaders I just noted. These high standards, in turn, reflect the emphasis on business ethics at this School and other business schools.

Still, our recent experience has given us a taste — and probably a useful one — of what could happen to American business generally if unethical behavior ever became truly widespread and persistent. Therefore, I challenge you to hold yourselves to the highest standards in your careers and in your lives, and to demand the same of your associates. This is the right thing to do; it is also the profitable thing to do. A successful business accumulates and

uses a variety of assets in conducting its business: its work force, its plant and equipment, its financial assets, and so forth. Trust and creditability may not be measured precisely by a line item on a firm's balance sheet, but their value is embedded over time in the firm's market valuation. I have no doubt you will meet this challenge.

As I participate with you in this happy celebration, I am reminded of the college commencements of my two sons. My older son graduated in 1992, the year of the first of the two recent "jobless" recoveries. My younger son finished in 1997 in the midst of one of the tightest labor markets in many years when the private business leaders on our Bank's board of directors complained constantly about the difficulty of finding even entry-level workers. This class will be entering a market somewhere between these two extremes.

It was only a few weeks ago that I and many other economists and policymakers were very concerned about the sluggish growth in jobs, despite the pronounced acceleration in GDP growth and in other measures of economic activity in the second half of last year and early this year. As you may know, the most recent developments in the job market are very encouraging. Jobs overall grew at a solid pace in March and April, and most economists now expect more of the same in the months ahead. So while your job search may be a little more challenging than the one your predecessors in the late 1990s experienced, I think your prospects are good. Indeed, I suspect many of you already have positions and are looking forward to moving on.

More broadly, I am firmly optimistic about your longer-term prospects for successful and satisfying careers. I once heard an optimist defined as the passenger on the *Titanic* who thought the ship was stopping in the middle of the ocean in the middle of the night to take on a fresh load of ice. Many people — maybe most people — are skeptical of optimism currently, including optimism about the longer-term future, in view of the continuing threat of terrorism, the challenges we face in Iraq and elsewhere in the Middle East, sharply rising fuel prices, and the other domestic and global risks we are reminded of daily.

But I *am* optimistic, and I believe my optimism is readily defensible. You will be entering an economy that is currently enjoying accelerated productivity growth. Moreover, this high growth may well be sustained in the years ahead as businesses and workers adopt the numerous, broad-based recent advances in information technology and other technologies. Higher productivity growth may seem to be an abstract concept of interest mainly to economists, but it means more and better jobs and a substantially higher standard of living for you and your families over the course of your careers. And despite the recent run-up in fuel prices and some other commodity prices, I am confident the Federal Reserve can and will sustain the low inflation environment that we have spent much of the last two decades establishing — and the firm foundation low inflation provides for strong economic growth.

Someone once asked Willie Nelson what par was on a golf course he'd just purchased in Austin. He replied that par was anything he wanted it to be. For instance, he said, the hole they were currently playing was a par 47, and he'd birdied it the day before. In at least a somewhat similar way, I believe that the favorable economic fundamentals I just described, together with the knowledge you've acquired here at Virginia Commonwealth University, will empower you to make your careers whatever you want them to be. Naturally I hope you will set standards that are more like Willie's standards when he sings than when he plays golf.

You have all been required to complete many assignments over your years here, and I expect that you would like to get away from them for a while. I have one more assignment for you, however, that you really must complete if my optimism about your future prospects is to be validated. Your assignment is to confront the major economic and social policy issues our nation faces and deal with them more effectively than my generation has. Business school graduates, which you will all be momentarily, are particularly well positioned to do this. You are trained to analyze complex problems, array options for solving them, and then decide among the options.

The list of these issues is long. It includes the federal budget deficit, which is manageable at its current level, but which, in the absence of policy adjustments, is likely to grow substantially as the baby boomers begin to retire only a few years from now. You may be weary of listening to people like Chairman Greenspan and me complain about the deficit, but if it continues to rise, the increasing federal government demand for resources that drives it will reduce overall investment in the economy, reduce the economy's longer-term growth, and diminish the improvement in living standards you and your families would otherwise enjoy over the course of your careers.

An issue I hope you will give particular attention to is the growing disparity of income and wealth across American households that is already straining our social fabric, and which will strain it further if this trend continues. It is certainly true that the raw data on income distribution may exaggerate the problem, since many people move up from lower income categories to higher categories over their lifetimes. But many people do not, and if the disparities widen significantly further, the risks are obvious.

The most effective way to resolve this problem seems obvious enough to me: much better educational opportunities for all Americans, but especially young people in low income neighborhoods. Making progress in this arena is a huge challenge, but I will tell you how you can help. Join the Federal Reserve and other organizations that are working across the country to increase basic economic and financial literacy among disadvantaged young people. Help teach them the importance of saving and investing and the longer-term rewards of doing so. Even more important, teach them how to find a job and then keep it and advance in it so they will have a growing income from which to save and invest. Teach them how to use credit wisely. Teach them how to develop their own longer-term financial strategies to build wealth over time, and introduce them to the basic tools — like balance sheets, income statements, and cash flow analysis — that will empower them to plan and track their progress. Helping build financial literacy would be a great way for you to give back to the communities where you will be

working. The return on your investment will be substantial, even if it doesn't come in the form of a big check.

These are my assignments for you, and I hope you will accept them. Winston Churchill once said, "Sometimes it is not enough to do your best; you have to do what's required." I think that sentiment applies here. Resolving the issues I've identified should be a high national priority. I am confident you can and will accept the challenge.

It is a privilege and a pleasure to extend my congratulations to each and every member of the class of 2004, and to wish you success and satisfaction in your careers. You've truly earned it. Good luck and Godspeed!

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