

LEARN, EARN AND SERVE

**Commencement Address
Stanford University Economics Department**

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Michael J. Boskin

**Tully M. Friedman Professor of Economics
and Hoover Institution Senior Fellow,
Stanford University**

I am deeply honored to be here today, both to share this joyous occasion with, and to make a few remarks to, the members of the class of 2007, and your friends, family and faculty. Stanford is a **great** university — a state, national and world resource. It attracts the best and brightest faculty and students to come together to learn, to explore, to research. Today's Stanford students will be tomorrow's leaders in business, the professions and public life. But perhaps I am biased, as I have spent many of the best years of my life here.

So let me begin first and foremost with a warm and heartfelt congratulations to all of you on a job well done. Your diploma is a testimonial and a capstone to hard work in a demanding and challenging environment. You should be proud of your achievement and allow your parents, other relatives and friends to be proud of you for it. Years from now you will remember today and cherish this celebration.

I recall my own graduation quite vividly. I wasn't even going to go, but my parents insisted. It was one of the best decisions I ever made, for reasons I hadn't been sensitive enough to imagine. Meeting my parents after the ceremony, pictures and hugs ensued. But what I remember most to this day are the tears that kept rolling down my father's face. The son of immigrants, he had to drop out of college to work during the Great Depression and never had the opportunity to return. Like some of you, I was the first person in my family to graduate from college. Until that moment, I had not fully realized how remarkably important my education was to him. Those moments strengthened bonds and healed wounds in a magical way. When I think of my father, long since deceased, it is almost always that image of him I recall. In current vernacular, for me that image is my dad's home page.

I hope in addition to all the courses, exams and term paper deadlines, you have found time to have some fun, learned a lot about yourself and made life-long friendships. I certainly did and treasure each to this day. I hope also that you have been inculcated with the scientific method we teach in economics that derives implications of theories and tests them with real facts and hard data, rather than with emotional appeals, simplistic slogans, and sophistry, which unfortunately are all too rampant today.

I also hope you have developed a respect for learning that will lead you to value it for yourselves, your children, and society. Indeed, I cannot think of a single day in my adult life during which I have not learned something, much of it useful. May each of you experience that unique joy for decades to come. And, if my life is any guide, you will learn much more from the serendipity, occasional failure and tragedy that forge your friendships and character than from your far more frequent successes.

While I hope your future will include continual learning, it will consist in much greater measure of earning a living and raising a family. Your parents undoubtedly are delighted by those prospects. You will certainly contribute much in your business career and family life. Participating in building a business, creating jobs and opportunity, and supporting and raising a family, inculcating children with time-honored values such as honesty, courage, integrity, hard work, tolerance and compassion are perhaps the most important things most of us do in our lifetime. By not dwelling on these great challenges themselves, I do not mean to suggest in any way that they are less than personally important and socially vital.

But after you have learned and earned, or even simultaneously, as some of you have found the time to do while at Stanford, if I may make a personal appeal: **serve**, whether on a school board; helping a private charity; or in government. One hears of great disgust with government and with politics these days, much of it undoubtedly deserved. Pundits proclaim that younger voters are quite cynical. I have had the privilege and opportunity to devote part of my life to public service, in fact, I still do, and want to let you know that it is possible to make a contribution to something larger than yourself and your own self interest — important as those are — and to do so honorably and honestly. And it is possible to make a measurable difference in the lives of your fellow citizens. Regardless of your chosen pursuit and how it evolves and changes over time, may you do well **and** do good.

From My Graduation To Yours

As you set off on various pursuits, starting a full-time job, entering graduate or professional school, taking a well-earned vacation,

let me share with you some reflections on the evolution of the American economy since I graduated and some conjectures about what will confront your generation.

I graduated from college in 1967 -- President Kennedy had been assassinated during my freshman year and President Johnson had just pushed through the Civil Rights Act and Great Society programs, which established Medicare and launched the War on Poverty.

The economy had been growing at a supernormal pace for two decades following World War II. Naive extrapolation of these trends into the distant future made everything seem attainable and the cost inconsequential. With hindsight, the suppressed demand from the Great Depression of the 1930s together with the readily available technology from World War II created unusually propitious conditions for American economic growth that propelled living standards upward for two decades at an unsustainable pace.

The notion that the government was the likely solution for most of our problems was ascendant, but productivity growth was about to collapse and terrible inflation about to commence. Some took the slowdown in the rate of economic growth and the slower improvements of living standards as a sign of serious fundamental decay or decline in the American economy, indeed, in our capitalist economic system, a refrain we hear echoed increasingly by academics and media pundits today. The declinists were wrong then, and they are just as wrong today.

They clamor for expanded government spending programs, protectionist trade policies, and government subsidies for special commercial technologies. The declinists insist that America will soon be surpassed by its economic competitors (previously, Japan and Germany and now India and China); that economic collapse is just around the corner; and that the middle class is disappearing. But the claim that the American economy is in a structural decline — what I call the myth of America's decline — is simply wrong.

The American economy does face serious challenges, most importantly adjusting external and budget imbalances, improving K-12 education, reforming entitlements, and diversifying energy supply. But

even with a healthy discount for political hyperbole, these allegations are nonsense.

Our unemployment rate, currently around 4½%, is about half the average in Germany and France. The unemployment rate for young workers in France is over 20%, a level associated with Depressions. Imagine seeking your first post-college job in that environment. These and many other economies have let the pendulum swing too far toward protecting current jobs rather than generating new ones. Of course, Stanford economics undergraduates learn in Economics 1 that the equilibrium unemployment rate depends BOTH on the rate people leave jobs – voluntarily or involuntarily – AND the rate employers hire new workers. When taxes and regulation – even if intended to finance benefits to the unemployed and to prevent layoffs – get too burdensome, firms hire fewer workers. The result is high unemployment like that in contemporary France.

America remains the world's largest, richest and most productive economy. With less than 5 percent of the world's population, it produces more than 20% of the world's total output of goods and services. The average standard of living in America exceeds that of any other major economy, one-third higher than in Germany and Japan, and America has maintained or enhanced its technological edge in many areas, for example, software, biotechnology, and pharmaceuticals. Since I graduated from college, real per capita disposable income and personal consumption have each increased about 150%. And industrial production – the output of the nation's mines, factories and utilities – has almost tripled. Back then, the Dow Jones Industrial Index was in the nine hundreds. Despite ups and downs, it recently broke thirteen thousand. The percentages of high school and college graduates have more than doubled and tripled, respectively. The vast majority of Americans today have personal computers and cell phones. When I graduated from college, neither product existed. Add DVDs to that list, and the Internet and all its products and services, iPods, and fresh fruits and vegetables in winter, each of which we take for granted today.

But America will not remain the world's strongest economy unless we maintain strong private incentives to save, invest, innovate, start a business and develop skills, AND a strong public commitment to

fund pre-competitive research. That's where all those new products that improve our living standards come from in the first place. America saves too little. The federal government consumes and borrows too much. The elementary and secondary education system is woefully in need of reform. Despite some temporary improvements scheduled to expire soon, the tax system still impedes entrepreneurship, saving, investment, and human capital acquisition. Federal, state and local governments regulate too much private activity too inflexibly. The legal system imposes vast unnecessary costs on consumers and companies, and stifles innovation.

The earnings premium, which you are about to enjoy, for highly-skilled, educated workers has increased dramatically. But the immense addition to the supply of low-skilled workers from economies previously cut off from the global trading system — perhaps a billion workers in China and the former Soviet empire, for example — puts downward pressure on earnings opportunities in the developed countries, especially for low-skilled workers.

While low-skill workers face difficult challenges in the years ahead and as a society we face difficult economic and political challenges about what to do about that, some traditionally disadvantaged groups have made impressive, if incomplete, progress. For example, despite the huge expansion in female labor force participation, women have closed almost half of the pay gap with men in the last quarter-century. Likewise, the elderly, who three decades ago had triple the general incidence of poverty, now have a poverty rate slightly below average.

Yet despite spending trillions of dollars on the War on Poverty, the poverty rate today is barely lower than when I graduated from college. And the New Deal and Great Society programs started by Presidents Roosevelt and Johnson, and expanded by Presidents Nixon and Bush “43”, now combine with demographic trends that will cause serious economic disruption and political difficulty in coming decades. The post-World War II baby boom generation will soon be heading into retirement; the first baby boomer is eligible for early retirement under Social Security next year. Combined with projected rising real benefit levels per recipient, relatively low fertility rates, and the increased life expectancy of the elderly, which has been rising about one month a year

for several decades, this will place huge strains on the future of Social Security and Medicare and, hence, the federal budget and taxes. The increase in the tax burden on **your** generation will be immense unless **my** generation has the political will to slow the growth in these entitlement programs.

Finally, let me mention briefly what I believe to be the most important transformation in the years since I graduated from college. I graduated a few years after Soviet Premier Nikita Khrushchev shouted to an American president “We will bury you!” Khrushchev was not talking about military might. He was projecting the growth of the Soviet economy relative to the slower growth of the American economy. Khrushchev proclaimed that the Soviet economic system with its central planning, bureaucracy, controls and state enterprises was a superior economic engine. While the geopolitical confrontations of the Cold War have been replaced by other grave geopolitical issues, most notably the war on terrorism, let me focus on the economic confrontation with communism.

I never imagined as an economics undergrad that a couple of decades later President Bush “41” would dispatch this grandson of Russian immigrants to Moscow to help Gorbachev with Soviet economic reform! When I arrived in Moscow, in addition to Gorbachev, who knew very little economics, I met with the head of the state planning agency, (Gosplan), the Finance Minister, and the head of the Central Bank.

The head of Gosplan was presiding over price reform in the Soviet Union. Instead of administered prices, there was supposed to be a move to a free market. At our first meeting he asked me, “Who sets the prices in your economy?” Flabbergasted at this remark, I explained that, while we have a few industries that are regulated by government, for the overwhelming bulk of products, the interaction of numerous producers and still more numerous consumers determine prices in our economy, and furthermore, repeating Adam Smith’s famous dictum, this invisible hand of the market produced the greatest good for the greatest number. The head of Gosplan repeated “So who sets the prices in your economy?” It was clear he could not think of an economy in which somebody in the government did not set the prices. He pulled out a

1960s-style giant computer printout which was the price list for every product in the Soviet Union. America had a market economy, I was the American President’s economic advisor, he had been told by Gorbachev that I would help, so who, he thought, was better able to decide the new prices?

I next went to the Finance Ministry where Finance Minister Pavlov and I discussed making the ruble convertible. Pavlov motioned for me to wait in his office in the Kremlin and disappeared through a secret door behind his desk. Remember, this was when there was still a Soviet Union, a Warsaw Pact and a domineering Communist Party and KGB. A few minutes went by and I started worrying that no one at the Embassy knew exactly where I was. Eventually, Finance Minister Pavlov returned and handed me a little case and motioned for me to open it. Inside was a coin. And there was the first Soviet version of the convertible ruble. A coin that said on one side “one ruble” and on the other side “one dollar”. I knew I had a long way to go.

When I returned to Washington and debriefed the President, I was pessimistic about Gorbachev’s chances of pulling this off, and about Soviet economic reform. It’s going to be a rough road I said, think in decades, not years, and this group can’t possibly pull it off. Either they’ll be gone, or there will be a political backlash that stops the reforms. Or both. Unfortunately for Russia and for the world, that is precisely what happened and to some extent continues to this day.

My personal journey is echoed in the intellectual and historical experience of the last several decades. Throughout the 1970s and 80s — and, remarkably, even today on college campuses — a prevailing view was that the world’s social and economic systems would (many also meant should) somehow converge toward a central tendency, somewhere say, to the “left” of where Sweden was in the 1970s. The communist economies, it was said, would round off some of the rough edges by allowing a littler freer reign to private incentives, whereas the advanced capitalist economies would evolve into ever larger welfare states with more government planning, intervention and control in their economies. We would all happily converge roughly on the same system, with roughly the same results.

Well, history has performed that experiment. Compare the former East and West Germany (which when I was in the government, we helped unite, remarkably, inside NATO while there was still a Warsaw Pact and an intact Soviet Union). Both were shattered by World War II. Both had similar problems and opportunities. One was dosed with communism — the heavy hand of state planning, controls and government intervention, regulation and state ownership of virtually everything. Once the Erhard reforms created a currency in which people had confidence and freed up prices from post-war controls, the other Germany was dosed with capitalism. The West grew into an economic superpower — struggling now under the burden of integrating the East — while the East stagnated. When the two Germanys were reunited, the standard of living in the West was more than five times that in the East, which had a spoiled environment, decrepit capital stock and demoralized labor force. Indeed the saying among East German workers was: “They pretend to pay us and we pretend to work”. That is about as close as we get to a natural experiment in economics.

There is no longer any doubt about whether there are two alternative paths to economic prosperity. Socialism and central planning simply do not work. Witness China. The move to a semi-market economy from an extreme form of communist collectivism unleashed such remarkable economic progress that 400 million Chinese have been lifted out of abject poverty. Never before in human history have so many people, or such a large fraction of the population, seen such material progress in so short a time.

From the development of personal computers to the collapse of communism to the changing role of women in the economy and society, to name but a few, it has been a remarkable, and unpredictable, journey from my graduation to yours. I have no doubt that looking back years from now when you will be attending the graduation of your children, hopefully from Stanford, you will feel likewise.

The impressive gains in material well-being and spread of democracy are reasons for optimism even as we confront new challenges such as global terrorism and continued economic deprivation for a still sizeable number. But we can forge an even brighter future for

our country and for the world. My own personal opinion is that to deliver on that promise, we must choose individual freedom, liberty and opportunity over government bureaucracy. Less rather than more government. Lower rather than higher taxes. Faith in people (**all** of them, not just privileged elites, I might add) — in their strength, goodness, fairness and common sense — over faith in larger, more intrusive and more expensive government that stifles freedom, initiative, and opportunity.

Some of you will agree, some of you will disagree with my particular policy conclusions. What I ask of you today is not agreement — but a commitment to engagement. Democracy is not a spectator sport. I hope each of you will find something in you — in your values, your family ties, your religion, or just your own personal sense of justice, decency and honor, to take time out of your private pursuits to participate in solving some of the nation’s – and world’s -- problems.

As the old saying goes, “An Asian wise man used to ask the deity in his prayers to be so kind as to spare him from living in an interesting era.” Perhaps we are not wise, as we have not been so spared. We are living in an era that compels us to take an interest in issues and events well beyond our own personal lives. Engage in and debate them; but do so with civility. Don’t let criticism and disagreement descend to the insult, vitriol, and even hate that demean so much public discussion today.

Your economics education will be one important tool for doing so. To quote one of history’s greatest economists, Alfred Marshall of Cambridge: “The answer to these questions does not depend only on economics. It depends, in part, on the moral and political capabilities of human nature, and on these the economist must do as others do and guess as best he can. But the answer depends in large measure on facts and inferences which are within the province of economics, and these are what give economics its chief and its highest interest.”

Congratulations. Good luck. God bless you. Stay in touch. And Beat Call!