

**For release on delivery
11:00 a.m. EST
December 17, 1997**

Remarks by

J. Alfred Broaddus, Jr.

President
Federal Reserve Bank of Richmond

before the

Graduating Class
Longwood College
Farmville, Virginia

December 17, 1997

President Cormier, distinguished members of the faculty, graduates, families and friends. It is a great pleasure and an honor for me to be with you on this happy and important occasion, and when I say it's a pleasure, I truly mean it. Most often when I'm invited to speak in public, I am asked to share my views on the economy and especially the near-term outlook for the economy. In other words, my hosts want an economic forecast, believing mistakenly that I have a clearer crystal ball than others. I'm very glad you haven't asked me for predictions, because the future I'd like to discuss today is yours.

I said it was an honor to be here. Let me tell you why. I know the scope of Longwood's programs has expanded greatly in recent years, but when I was growing up in Richmond your school was known especially for training excellent teachers. In fact, many of my high school teachers were Longwood graduates, and they were good! And they were demanding! They made our courses in literature and history and mathematics come alive, and they inspired in me a lifelong love of learning and a healthy curiosity about the world and the way it works. Being asked to speak at the commencement of the college that produced these wonderful teachers honors me more than I can tell you.

But today is your day. It is a day to savor, a day to celebrate your achievements. I expect that after several years of hard work, examinations and diverse assignments, the last thing you want on this special day is another assignment. I have one for you, however, and that is to use the specific skills and the broad knowledge and insights this distinguished college has given you to make your world and mine a better place — to take the companies and institutions you work for, your respective local communities, the Commonwealth of Virginia and the nation to a new and higher level of productivity and a higher level of life.

I am closing in on 60 years of age. Like a lot of my contemporaries, I no longer think as

quickly or as keenly as I once did. I console myself by hoping that my progress toward elderhostels has provided me with some perspective. I'd like to share a little of that perspective with you today if I may.

When I think about the six decades of my life, I think in terms of three generations: my parents', my own and yours. My parents' generation was an extraordinary one. They fought World War II and the Korean War and then helped produce a period of solid economic growth and relative stability until the mid-1960s. My own generation — the baby boomers and those of us who immediately preceded them — had to deal with Vietnam and the economic and social upheavals that defined the period between the mid-1960s and the early-1980s. More recently we have had to contend with the downsizings and restructurings in our workplaces and our lifestyles; we have had to face mid-life job losses and unrealized dreams.

Although my generation has accomplishments of which we can be proud, we must also admit some failures. An obvious one is that we have not been as good stewards of our nation's economy as we might have. And the economic environment we are passing on to you is not as stable as the one our parents passed to us.

And that's where the assignment I mentioned earlier comes into play. My generation is asking you to clean up some of the messes we've made. We're asking you to meet some of the challenges that we haven't faced head-on. I'm calling this an assignment. Actually, it might be wiser and more appropriate to call these requests urgent pleas. We need you to fix some of the problems we haven't fixed so we can enjoy our not-too-distant retirements.

I'd like to focus today on what I believe are two particularly important problems: first, what I call the "fiscal" challenge, and second, what I will refer to as the "distributional" challenge — the increasingly unequal sharing of our country's vast income and wealth among our citizens.

The very terms "fiscal" and "fiscal policy" may turn you off because they suggest arcane discussions of government finance, deficits, the public debt and so forth. But broadly speaking, fiscal policy is simply the public policies that determine how our society collectively acquires the

resources it needs to meet the mandates we have imposed on the public sector in such areas as defense, Social Security and education, and how the government actually discharges these mandates.

As you know, the government acquires resources through taxation and, at the federal level, primarily from personal and corporate income taxes. How many of you graduates have had the pleasure of filling out a federal income tax form? Those of you who have probably wondered: “What’s going on here? How did this become so complicated?” — especially if you have had the extra fun of filling out the basic 1040 form, with all of its schedules, instead of the simpler 1040A or EZ forms. I hate to tell you, ladies and gentlemen, but it gets worse as you acquire homes, financial assets and dependents.

The complexity of our tax system is more than just a personal inconvenience. It represents substantial social waste, because Americans spend a huge number of hours working on tax forms. We could clearly raise the same revenue with a far smaller expenditure of time. And we could use the time that is saved to do more worthwhile things, such as making computers, or conducting medical research, or writing poetry, or composing new music. My generation has talked a lot about dealing with this situation, but we have only talked. I hope your generation will take action. The beneficial economic impact would be dramatic in my opinion. And please act expeditiously before the current tax system finally drives us older folks insane. There are lots of ways you can fix it: a flat or flatter income tax structure, and various forms of consumption taxes are among the alternatives. I’ll leave the particulars to you. Don’t let the details daunt you as they have daunted us.

Let me turn now to the second most pressing aspect of our current fiscal challenge: funding Social Security. There’s much discussion these days about funding Social Security, but most of the talk focuses on “funding” in the narrow sense of accounting mechanics. What really matters is funding in the basic economic sense: ensuring that the people actively working at any particular time can produce enough goods and services to satisfy themselves and their families

as well as the population of retirees that is no longer actively producing. This is what funding retirement really means. And, as you know, this will be a major challenge for your generation.

In 1957 there were roughly 16 working people for every retiree. In 1997 there are only four workers, and in the year 2010 — when you will be entering the primes of your working lives — there will be only two of you. Obviously your parents and I are especially keenly interested in how you meet this particular challenge! I believe that the best way to ensure adequate retirement resources for us, and later for you, is to support public policies that foster adequate net savings and investment in computers and other new equipment, investment in new knowledge through research and development, and investment in what economists call human capital through education and skills training. We need these policies so that you, as workers, can be more productive making useful products; providing more business, medical and other services; and generating more powerful and creative ideas. The policies I have in mind are things like (1) still lower capital gains taxes, and (2) monetary policies that foster low inflation and hence more investment and more growth in jobs and income.

I can cover the distributional challenge I mentioned earlier more quickly than the fiscal one. But it is no less important and may be even more so. As you surely know, there are exceptional disparities in income and wealth in America. Some disparities represent a normal and healthy manifestation of our freedom. People are different. Some people are willing to work harder than others. Some people are willing to take more risks than others; and some sing better, or play the piano better, or rap better than others. In a free society we allow these individual differences to play a substantial role in determining who gets what and how much. But the disparities in income and wealth in the U.S. today seem excessive, and there is clear evidence that the inequities are broadening rather than diminishing. There seems to be more to this trend than just differences in work ethic and talent.

What's going on? Probably many things that I don't fully understand. But I feel confident that one important contributing factor is a disconnection between the current revolution in

information technology, on the one hand, and a substantial segment of our educational and training systems, on the other. Calling the recent extraordinary advances in information technology a revolution is not hype. The term is fully justified. But it takes knowledge and skill to exploit it, and the hard truth is that much of our educational system — especially at the elementary and secondary levels — is not effectively preparing our students to participate in this revolution. Consequently, many students finish high school and enter an increasingly competitive, technology-based economy in which they can't be fully productive. The increasing disparities in knowledge and skills in our work force help produce the glaring disparities in income and wealth.

I know, of course, that this problem of inadequate preparation for the information age does not directly affect the graduates of this fine college. But it affects many of your contemporaries. And if you don't deal with it, it will ultimately affect your businesses, your families, and the quality of your lives. A society with such economic disparities may survive, but it cannot be truly healthy and reach its full potential. We — you — must do something about this. I don't pretend to know the best course of action. Maybe we need more educational infrastructure and other resources. Maybe the solution requires using the resources we already have more effectively through improved incentive structures and more accountability. Or maybe it needs some of both. In any case, we need to determine the best approach and get on with it.

Okay, folks, those are your assignments: rationalize our currently convoluted tax system; foster the investment and productivity increases needed to take reasonably good care of us old or soon-to-be-old fogies without denying yourselves the rewards of your labor and initiative and creativity while you're young enough to enjoy them; and do a better job than your parents have of fostering an educational system that allows all our citizens to take full advantage of the extraordinary opportunities our very wealthy society has to offer. These are tough challenges I hand you today. But I have no doubt your Longwood experience will position all of you to help our society move forward on all these fronts.

One more thing. These challenges are also opportunities. And that's the key thought I want to leave with you this morning. America has always been a land of opportunity, but the range of opportunities today — especially for well-trained people like you — is exceptionally broad and rich. I've already mentioned the technology revolution. And the current expansion of global commerce presents whole new realms of opportunities, not only for business people, but for those who understand foreign languages and cultures. Finally, the spirit of entrepreneurship is stronger today than at any time in my memory. So there is more opportunity currently to develop your own ideas and run with them. And with the unemployment rate at the lowest level since the 1960s — both nationally and locally — you shouldn't have trouble finding a place to start.

Preparing these remarks, ladies and gentlemen, made me realize something I hadn't expected to confront. I was born too early. As we prepare to enter the Twenty-first Century, you folks are very definitely in the right place at the right time. God bless you all. I wish you good luck and Godspeed.