Remarks for
Economics Department Graduation Ceremony
John B. Taylor
June 13, 1999

First let me say congratulations! to the graduates for completing their degrees in economics—a subject that I love dearly, as I hope I will make clear in the next few minutes.

Congratulations also to the parents and grandparents of the graduates for your hard work and emotional involvement with your sons and daughters. And congratulations on the big "after-tuition" raise you get next year as your tuition payments drop.

I know that your parents and grandparents will agree with me that your years at Stanford have literally zoomed by—it seems like yesterday that you were moving in, saying hello to new roommates, and now your are moving out and saying good-bye. If you are like many other recent graduates you should probably expect to keep moving in and out a lot in the next few years. I recommend packing light. And speaking of packing light , there is the story about Mark Twain when he was a young reporter working in Nevada. He was walking across the town of Virginia City with

a cigar box under his arm. He ran into a lady he knew, who scolded him for not quitting smoking cigars. He replied “Ma’am. This box has no cigars in it; this is my suitcase and I am moving again.”

To me it seems like only yesterday that you were first year students and I was having a great time teaching many of you in the introductory course in economics. But from an economic perspective much has changed since I taught Economics 1 to many of you in the Fall of 1995. I would like to focus on seven of those changes in these remarks. And I want to illustrate a few classic economic concepts—such as opportunity costs—in doing so.

The first change on my list, and perhaps the most important economic change for you, is that you have taken at least 60 units of rigorous economics courses—micro, macro, indifference curves, exchange rates, comparative advantage, opportunity costs, the invisible hand, the prisoners dilemma and yes even Lagrange multipliers. But ever since the founding of the Stanford economics department at the start of this century, a Stanford degree in economics represents not only the ability to think rigorously about economic problems, it also means the ability to apply this thinking to practical problems that will help people’s lives. Professor Hall’s flat tax,

Professor Boskin's CPI commission report, Professor Pencavel's study of male-female salary differentials at Stanford, and perhaps even Professor Taylor's rule for monetary policy are examples of analytical thinking confronting the real world and making a difference.

You probably know that you already have more training in economics than most politicians. So you too are ready to give advice, criticize proposed laws, and make policy proposals. By the way, unlike medicine or the law, you do not need a license to give economic advice, and I hope you take advantage of that loophole to use your economic training to get involved in public policy making—whether working on a political campaigns, writing letters or op-eds, or working in your communities with your friends and co-workers.

The <u>second</u> change at Stanford on my list concerns a student who took economics 1 with me in the Fall of 1995. This student left Stanford soon after taking the course, and he had not graduated yet. I bring this change up because it illustrates nicely the economic idea of opportunity costs. The student's name is Tiger Woods. At least for Tiger, the opportunity cost of another two years at Stanford were huge--$40

million by some estimates--and evidently too great a cost to pay to continue in economics.

Now let me consider some economic changes outside of Stanford since the fall of 1995. Third on my list is stock prices. Believe it or not the Dow Jones Industrial Average more than doubled while you were completing your degree; it rose from 4,490 in 1995 to 10,490 as of last Friday—that is a 6000 points, or a 130 percent, increase. Unfortunately, explaining this change is a lot harder than explaining Tiger Woods decision. Certainly, profit growth is not large enough to explain the whole rise, but perhaps expectations of future earnings and continued expansion will do it.

A fourth change is the state of the Federal budget. For the final exam in economics 1 in the fall of 1995 I wrote a question having to do with alternative ways to reduce the budget deficit. The deficit was huge at that point: projected spending outstripped projected tax revenues by many 100s of billions of dollars. It was a good exam question, and I was happy that most students did quite well. The problem was that within two years, the situation changed completely. Now tax revenues are expected to surpass expenditures by 100s of billions of dollars. A budget surplus is projected. What caused the change? Tax rates were

not raised. Rather it is that people's incomes are rising very rapidly with the booming economy. And the incomes of people in higher tax brackets rose even more rapidly then everyone else. With people in higher tax brackets earning so much, tax revenues have bulged. Even though top marginal tax rates are lower than they were in the 1970s, taxes paid by people in these top brackets are much higher.

The fifth change is found in labor markets. I taught that labor markets were doing pretty well in 1995 when the unemployment rate was 5.6 percent. But since then unemployment has fallen remarkably fast. It is currently 4.2 percent, a rate not seen in decades. This is the best summer to be looking for a job in more than 30 years. And recently the unemployment rate for teenagers and minorities has also dropped. An article in today's *New York Times*, headlined "How Low Can the Boom Go" with a subtitle "Trickle-down prosperity" reports on how the economy is now doing more for disadvantaged workers than many government programs.

Sixth, the Asian currency crisis. Starting in the summer of 1997 the crisis devastated the economies of Thailand, Indonesia, and Korea. It was the subject of many seminars and classes in economics and political science here at Stanford. Many forecast that

it would have big effects on the U.S. economy, but it did not. The U.S. economy kept on going and now most pundits have declared the crisis over. Why did the U.S. economy not get hurt? In a curious way the U.S. economy benefited from the Asian crisis; the decline in exports helped cool off the economy and the depreciation of those currencies relative to the dollar helped lower U.S inflation.

The <u>seventh</u> change has to do with macroeconomics—my area of expertise. While you were getting your degree the current U.S. economic expansion moved up in the rankings from the second longest peacetime expansion to the first longest peacetime expansion in American history. An expansion is the period between recessions. However, what is more remarkable than the current record breaking expansion we are in now is that it was preceded in the 1980s was the second longest expansion. In other words what is most unusual is that we have had two record-breaking expansion back to back. This is truly unprecedented. I call it the Long Boom. I attribute this Long Boom mainly to monetary policy—the actions of that mysterious organization called the Federal Reserve. By keeping inflation low and stable the boom-bust inflationary cycles like we had in the1970s have been largely prevented. I believe that if such a policy is

continued in the future, it will greatly increase the likelihood of more long booms in 21st century.

There are a host of other economic events during the last four years that I could mention—the formation of the European Central Bank (where I am going this week to give some advice), the increased attention to social security reform, the economics of the 1996 presidential race. But let me instead end on a personal note. While you were learning economics, I learned something new too. I learned how to lead a cheer at a football game. In fact, the Stanford yell leaders made up a special cheer for me that went "We're Cash. We're cash. We're Money." I learned that you have to say it four times to make it work as a cheer. The term "money" in the cheer comes from the movie "Swingers" and has nothing to do with economics. In the movie young people use the term to bolster the confidence of a down-and-out friend. "You're money" means simply that "you're good, we like you, you're worthwhile, you can do a lot." The phrase represents the moral and loving side of human relationships. I want to close my remarks by giving that cheer to you,the economics class of '99. Maybe the parents, grandparents, and other relatives and friends can join in**. You're Cash! You're Cash! You're Money** *Repeat four times.*