SPEECH TO GRADUATING CLASS OF
Brandeis International Business School
May 16, 2009

This graduation ceremony is one of the most special moments of your Brandeis experience.
A time to appreciate your accomplishments…
A time to ponder your new life and challenges…
I am honored to be part of your extraordinary day at this wonderful university.

I am also pleased to be here with my good friend Dean Bruce Magid. I know him as an excellent economist and banker and a creative academic administrator.

I have worked in business, the federal government and the academy over several decades. Based on those experiences, I thought you might find helpful some observations about the economy and Washington that sweep across recent decades and then end with some comments about where we are now.

Presidents who change the country usually have a vision for economic growth. I would like to talk about the visions of Presidents Ronald Reagan and Barack Obama.

President Reagan believed in cutting taxes, market forces, open markets and a smaller role for government and regulation. He greatly benefited from the work of Federal Reserve Chairman Paul Volker in wringing inflation out of the economy. Reagan, Volker and British Prime Minister Margaret Thatcher changed the world and laid the foundation for the generation of economic growth that followed. Of course, information technology was a huge driver as well. We can not forget that even with the current recession, very substantial U.S. and global gains remain in place.

Supply side economics however was more than just cutting taxes. There was a companion responsibility. Reagan and many supply siders felt deeply that you had to contain federal expenditures as well. Cutting taxes would produce growth and more government revenue but not enough to cover unlimited government expenditures.

Unfortunately Reagan was never able to contain government expenditures as he wished to do because he felt he had to spend on defense to win the cold war. Congress would not agree to reduce domestic expenditures without Reagan agreeing to reduce defense expenditures.

After the cold war, during the administration of President Bill Clinton taxes were not increased substantially, especially by historical standards, and spending and deficits were contained. By the end of Clinton's second term, the country was looking at potential budget surpluses.

George W. Bush cut taxes in a Reagan supply side mode but defense and domestic expenditures increased greatly. Deficits dramatically increased. The supply side model of lower taxes and constrained government expenditures was ignored by half.

Also, over the years, some major problems in the country continued to fester including energy, education and medical care.

Less regulation over the decades, in my view, contributed greatly to growth in many sectors. But less oversight of the ever changing financial services sector contributed to the recent near collapse of the financial service industry. Republicans and Democrats in the executive branch, Congress and the leadership of the Federal Reserve in their various roles had their part in this. For example some oversight and disclosure for certain derivatives was not provided, Moodys and Standard and Poors were allowed to be paid by interested parties to rate securities, expansion of home ownership was pushed and weaker credit standards were developed, and so on.

Then came the election of President Barack Obama. He has his own vision for economic growth. He has to deal with the recession, but his long term vision is to make large investments in certain sectors to solve problems and create growth. Those sectors are energy and research generally, medical care and education. It seems to me that this is sensible but, like the original supply side approach, it envisions containing non-investment expenditures and deficits.

I think substantial government expenditure has been and is necessary to deal with the recession and its fall out, but the "normal" budget expenditures are also greatly increasing. So far President Obama has put little focus on containing such non-investment expenditures.

As *The Washington Post* editorial page said a week ago today, the President's 2010 budget proposal to Congress leaves the hard decisions to next year or beyond. *The Post* also noted that next year is an election year, always a difficult time to make budget cuts. The Chinese finance minister is already publicly worrying about ability of the U.S to pay our debt and they are voting with their investments as they seek to somewhat diversify their portfolio. The fear of course is that historically huge deficits could serious challenge the dollar, pre-Volker inflation could come back, and growth could be undercut for a decade or more.

I understand the President's problem. He wants to get his investment vision in place before he slugs it out over all the hard deficit choices. However, there may well be a race in the years ahead between getting the impact of a new investment growth strategy and huge deficits that are now as long as the eye can see.

A brief comment about one of the investment components of the President's vision. President Obama has said that he wants all Americans to have some higher education, and has backed that up by support of a much expanded federal student financial aid program. The discussion in Washington now is about what should be the president's specific and realistic big goal for higher education.

I propose that the country have the goal of 55% of people between the ages of 25 to 34 have a higher education degree by the year 2025. Educated people are competitive and productive people. Currently 41% of the population in that age group has a degree. In times past, our percentage was well ahead of the rest of the world but many other counties have moved up. We are now substantially behind countries like Japan, Korea and Canada.

To reach this goal, we would need to enroll more students in college, increase graduation rates and make many other changes. I note that the growth in graduates on a percentage basis would be smaller than the increases after World War 2 and when the baby boomers went to college in the 1960s and early 1970s. I think this goal is practical. Such a goal will be the challenge for this generation of university leadership.

Let me return to the economy and its future. I am clearly uneasy about deficits and what that might mean for the dollar, inflation and growth. But with a concerted effort it is possible to manage the situation, though we cannot wait long.

Moreover, I am not as concerned now as a few of months ago that the U.S. and the world will fundamentally rollback market forces and open trading borders. Yes, there will be lots of problems to manage. The temptation for policy makers is to get government too deeply into regulating and managing business and become protectionist. However, markets and trade are clearly the most effective ways to allocate capital, increase productivity and create jobs and growth. There will be some changes in government policies, but I am somewhat optimistic that there will not be fundamental changes in the U.S. and globally.

That is good for you as new graduates. Of course, the job market today is not what it was a couple years ago. However in recent decades, as never before in history, well-educated hard-working people such as you have prospered and had opportunities in the global market economy. I believe those opportunities will continue.

There is no doubt that we live in interesting times. I challenge you to play your part in the great issues of your day including those about which I have spoken. I hope that over your careers you will work in both the private sector and in government. I have found government service to be professionally and personally very rewarding.

Again I am honored to be here with you. Class of 2009 congratulations and go forth to productive and satisfying lives.