William C Dudley: Address to the New College Class of 2010

Remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the New College of Florida 44th Annual Commencement, Sarasota, Florida, 21 May 2010.

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Congratulations, graduates. And congratulations, even more so, parents and all of you who supported these graduates along the way!

Thank you to the graduates and members of the faculty and administration for selecting me as New College of Florida's 44th commencement speaker. I am very grateful for the opportunity to speak here today in such a beautiful setting. It's nice to be back.

Earlier today, I had the pleasure of meeting a few of you – in a smaller setting – to hear about your plans for after graduation; or should I say, tomorrow. I am very impressed with the high caliber of graduates in your class. I also had a tour of the campus today, which I must say has changed a lot in the past 30 years. One thing that hasn't changed, however, is the Palm Court – or as you all so affectionately call it, the "center of the universe."

I have very fond memories of my time at New College, aside from those great Palm Court parties. I received a terrific education and made some life-long friends. I hope the same has been true about your New College experience.

I am especially grateful for the support from the faculty over the years – both while I was a student and afterwards. There are two people I would particularly like to highlight:

Jan Van der Veen – Jan was the professor who really got me started in economics.

Bob Bennedetti – Bob agreed to a contract in which I would get a semester of college credit mainly through working on the 1972 presidential campaign in the California primary election and in Ohio for the general election. Probably learned more from that experience than anything else I have ever done in higher education. I would encourage all of you – Republicans, Democrats and Independents – to get involved in public service at some point in your careers.

I have many memories of New College – some about people such as Jan and Bob, and others about events and experiences. For example, one of the most remarkable events I have ever witnessed occurred here one night in December 1972 – the first Apollo spacecraft night launch. I remember staring out from the top of a dormitory roof not far from here across the horizon looking at the star specks – wondering, is that the rocket? When it actually came up over the horizon it truly was amazing. I remember it as no bigger than a half-inch gap between your thumb and index finger at arm's length. And as the liftoff proceeded and the vapor trail started to decline over the horizon following the curvature of the Earth – I really could see clearly that the world was truly round. Maybe that's a good metaphor for my New College experience!

My only truly unpleasant memory here was one literature course (student taught, I might add) in which I received an evaluation that essentially noted that I could not read, write or think. I like to think that was a bit harsh, but everyone is entitled to their own opinion!

New College truly is a special place. I like to call it "graduate school for undergraduates" because it really is a place that encourages students to intellectually engage, learn, think and communicate.

The unstructured format of evaluations and contracts rather than grades is not for everyone – some folks need more structure. But I see that you have made it through and I congratulate you for that – it is an important milestone in your life.

Today, I want to talk about two issues: the economy you face as you graduate, and some advice – call it “lessons learned” – that might have some value to you as you contemplate what you are going to do with the rest of your life.

The economy you face as new graduates

The U.S. economy is recovering and we are now seeing the first signs of significant employment growth. Thus, this is a better year to graduate than last. However, finding a job will not be easy – the unemployment rate is much too high – nearly 10 percent. And the recovery seems likely to be more sluggish than we would like.

The economy is suffering from the hangover of the real estate and consumption boom that ended a few years ago. That boom collapsed beginning in mid-2007. The result was a very deep downturn from which we are now only emerging.

Although the Federal Reserve has been aggressive about easing monetary policy to support economic activity, the recovery is not likely to be as robust as we would like for several reasons.

First, households are still in the process of deleveraging. The housing boom created paper wealth that households borrowed against. This pushed the consumption share of nominal gross domestic product to a record high of about 70 percent. When the boom turned into a bust, those paper gains evaporated. In fact, many households now find that the value of their homes is less than the amount of their mortgage debt. This has created a difficult time for many families and has caused the hangover to last longer.

Second, the banking system is still under significant stress. This is particularly the case for small- and medium-sized banks that have significant exposure to commercial real estate loans. This stress means that banks have been slow to ease credit standards as the economy has moved from recession to recovery.

Third, some of the sources that have supported the nascent recovery are temporary. The big swing from inventory liquidation during the recession back to accumulation will soon end as inventory levels come back into better balance with sales. And fiscal stimulus from the federal government is subsiding and will soon reverse.

Coupled with the benign outlook for inflation, these headwinds to growth and employment explain why the Federal Reserve is keeping short-term interest rates unusually low. We want to do all we can to support more rapid economic and employment growth, subject to keeping inflation low and stable, and inflation expectations well anchored. The situation has improved and total employment is now growing – for example, U.S. payrolls rose by 290,000 last month. But we are still far from where we want to be.

In this environment, finding a job will be tough, but when you hit the pavement remember that the job market is improving. Don’t get discouraged. Get your foot in the door by doing something productive, even if it may not be exactly what you want to do for the rest of your life. Gaining knowledge and experience is what is important at this point. The first job out of college is a foot on the ladder – the job doesn’t have to be perfect to be valuable to you.

A bit of advice

In terms of your career, my first bit of advice is: don’t rush. There is plenty of time for your careers to unfold. It’s not a sprint, it’s a marathon. I didn’t really start my career until I went to work for the Federal Reserve Board at 28 after graduate school and didn’t begin working on macroeconomics until I joined Goldman Sachs when I was 33.

When I entered the job market from New College in the fall of 1974 – the economy was in recession. I interviewed for many jobs, and I was told that I was overqualified for a few and under qualified for many. I eventually got a job as a methods analyst, which is essentially an internal efficiency consultant. It wasn't much, but it was a start and I went from there. My second bit of advice is to take the time to find out what really interests you. This means you may want to try a few different things before settling on a particular career path. When I left New College I certainly didn't know where I was headed. I only made the decision to become a professional economist two years later when I was deciding between law school and economics. And I didn't decide to opt for more policy-related work rather than become an academic until I entered the job market from Berkeley five years later.

The important point is that if you like what you are doing, you almost certainly will be successful at it.

My third bit of advice is to be true to yourself. It is a lot easier to keep things straight and be happy if your public persona and private persona are not in conflict – you are one integrated person.

Being true to yourself also means facing up to problems and mistakes early. Early on in my career as a professional economist, I got involved in writing a paper about tax reform with the head of the firm's research department. The night the paper went to the printers, I woke up with complete clarity that there was a mistake in the paper. The mistake did not affect the conclusions of the paper. It just slightly changed all the numbers and was obscure enough that no one would probably catch it.

What to do? I decided to take my medicine. I walked into the office of my co-author the next morning and said that we needed to throw out the 10,000 copies of the paper that had been printed. The head of research – Leon Cooperman – was known for his – let me say this delicately – strong personality. But rather than blowing up at me, he said fine, let's fix it.

Facing up to the error must have actually worked in my favor since I won his respect. A few months later, he introduced me to Robert Rubin – who, as you know, went on to become the U.S. Secretary of Treasury. And through Robert Rubin I met all sorts of interesting people in the Clinton administration.

My fourth bit of advice is to continue to build your human capital. That means seeking out jobs and opportunities that give you new experiences and skills. Keep up with your mentors and continue to cultivate relationships and build your network. Education isn't just about college course work, it should be a lifelong experience. If your employer asks you do something new – don't shy away from it. Instead, think of it as a wonderful deal: Your employer is going to pay you to deepen your skills and knowledge base. You will be paid to become more valuable.

For me, the ability to build my human capital has happened – in spades – several times. The first occurred here at New College and at Berkeley for graduate school. Here I learned to really read critically and how to write – the one literature course that I mentioned earlier notwithstanding.

The second was the opportunity early on in my career to become involved in macroeconomic forecasting and policy analysis. Up to that point, I had been a regulatory economist. I had only taken one course in macroeconomics in graduate school and it was the only course on which I received a "B" grade – I had not revealed any great affinity for that subject. At first, the work was stressful. When people asked me questions, I wasn't sure whether I was supposed to know the answers or not. At first, I felt quite ignorant, but eventually that passed.

The third was when I was asked to head the Markets Group at the Federal Reserve Bank of New York at the beginning of 2007. It was an unexpected opportunity for public service after spending the bulk of my career in the private sector. The Markets Group is the operational arm of the Federal Reserve System. It helps to have an economics background, but it was a very different task managing 300 people who worked in many complex businesses ranging from Treasury auctions to providing services to foreign central banks. And, when the financial crisis began in earnest in August 2007, the learning curve accelerated sharply.

And the fourth was when I had the opportunity to succeed Timothy Geithner as president of the Bank in January 2008. Now it is 3,000 people, not 300 to manage and a much wider set of responsibilities.

Some of the most interesting parts of the job have been getting troubled financial institutions onto a stronger footing so that these firms could provide greater credit and support to the U.S. economy. Obviously, working closely with Chairman Ben Bernanke and my Fed colleagues at the Board of Governors and around the other 11 Reserve Banks has also been particularly rewarding.

Each time, the opportunities helped me broaden my knowledge and skills. My career benefited as a consequence.

In implementing this advice, it also helps to have lots of good luck. In that regard, I have been blessed. Think of the chain of events for me to get my "dream job" – head of the Federal Reserve Bank of New York. I had to decide to leave Goldman Sachs at the end of 2005; be asked by Timothy Geithner to be head of the Markets Group in 2006 and be smart enough to take him up on his offer; Barack Obama had to win the presidential election; Tim had to be selected to be Treasury Secretary; and the Board of Directors of the Bank in collaboration with the Board of Governors in Washington, D.C., had to agree on me as Tim's successor. If you ever thought that train of events was even remotely likely, I think you would have been considered delusional!

My final piece of advice is the most important one: Don't forget all that they have taught you here about thinking critically and speaking up.

So, let me sum up. Go into the job market with enthusiasm and don't be daunted by the inevitable rejections. That's part of the process of getting started. Don't feel in a rush to figure out all the details of your career. If you are true to yourself, continue to build your human capital and don't forget everything that they have taught you here, I know that you will meet with every success.

Thank you and, most importantly, good luck!