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Why Study Economics?

Remarks by

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at

Convocation

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I am very pleased to visit today with the students and faculty of the Howard University Economics Department. First, a fact that you know but others may not: The Howard University Economics Department is the only producer of economics Ph.D.'s among the nation's historically black colleges and universities, and it has been teaching economics to undergraduates for nearly a century.¹

Speaking as one economist to a group among whom I hope will be many future economists, let me start by saying that pursuing a degree in economics can bring many rewards. First, an economics degree provides many possible career paths. The discipline's logical, structured approach to problem solving is valued in many settings, including academia, banking, business, consulting, government, and law. Economics majors typically receive salaries that represent a good return on their educational investment. Second, in addition to career prospects and financial rewards, economics offers a means of engaging in many of society's most pressing issues. The study of economics provides a rigorous, analytic perspective on human behavior. It commands respect and has the ability to influence policies that address important issues. A degree in economics will help you understand and participate in these policy debates, putting you in a good position to change the world for the better.

Next, I would like to discuss two current questions that economists are actively debating: First, why is participation in our nation's labor force declining? And, second, what can be done to improve economic mobility (the ability to climb the economic

¹ I am grateful to Andrew Cohen and Byron Lutz of the Federal Reserve Board staff for their assistance. Views expressed are mine and are not necessarily those of the Federal Reserve Board or the Federal Open Market Committee.

ladder) for children from all groups and from all areas of the country? By doing so, I hope to illustrate the relevance of economics to important, real-life issues.

The proportion of adults participating in the labor force--that is, either holding jobs or actively searching for employment--has declined substantially over the past decade. The decline has reflected, in part, the severe economic recession. Millions of people lost their jobs, and many of them experienced great difficulty finding new employment. Some of these people became discouraged and stopped looking for work. In other words, they dropped out of the labor force. However, much of the decline in labor force participation reflects factors that precede the recession.² Most significantly, our population is aging, and older people participate in the labor market at lower rates than younger adults. In addition, the labor force participation of prime-age males--that is, individuals aged 25 through 54--has been declining since the mid-1960s, particularly among those with only a high school degree or less education, and has continued to decline in the years since the last recession.

Economists are examining a number of reasons why prime-age males are falling out of the labor force. Here there are differences among economists. Some economists have emphasized the role of public assistance programs, such as disability insurance. Some evidence suggests that public assistance income has likely played a role. Other economists have put more emphasis on the effects of the reduction over time in the demand for lower-skilled labor.³ Indeed, the wages of high school graduates have fallen

² See Stephanie Aaronson, Tomaz Cajner, Bruce Fallick, Felix Galbis-Reig, Christopher Smith, and William Wascher (2014), "Labor Force Participation: Recent Developments and Future Prospects," *Brookings Papers on Economic Activity* (Fall), pp. 197-255, www.brookings.edu/~media/projects/bpea/fall-2014/fall2014bpea_aaronson_et_al.pdf.

³ See John Bound, Stephan Lindner, and Timothy Waidmann (2014), "Reconciling Findings on the Employment Effect of Disability Insurance," *IZA Journal of Labor Policy*, vol. 3 (11), pp. 1-23. For an opposing view that concludes that disability insurance has significantly suppressed the labor force

sharply in comparison with the wages of college graduates over the past 40 years. Many economists believe that the decline in demand for lower-skilled workers reflects technological changes.⁴ For instance, the introduction of information technology such as desktop computers may have boosted the wages of highly skilled workers by more than the wages of workers with fewer skills. The slump in demand for lower-skilled labor likely also reflects the effects of globalization, including competition from goods produced and imported from abroad.⁵

My second current question concerns economic mobility: How likely is a child from a low-income family to move up to a higher income level as an adult? Over the past few years, economists have made important findings using newly available data. First, economic mobility varies substantially across the United States. For example, the odds of a child from the bottom quintile of the income distribution reaching the top quintile of income as an adult are 11 percent here in the Washington, D.C., area but only 4 percent in the Charlotte, North Carolina, region. Second, mobility is significantly lower in areas with greater residential segregation in terms of both race and income. Mobility is also lower in areas with greater income inequality, less family stability, and lower-quality schools.⁶ However, we need further study and analysis to understand whether these factors *cause* lower mobility or are merely correlated with it. Thus, despite the gains in

participation of the less skilled, see David H. Autor and Mark G. Duggan (2003), "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics*, vol. 118 (February), pp. 157-205.

⁴ See Daron Acemoglu (2002), "Technical Change, Inequality, and the Labor Market," *Journal of Economic Literature*, vol. 40 (March), pp. 7-72.

⁵ See David H. Autor, David Dorn, and Gordon H. Hanson (2013), "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review*, vol. 103 (October), pp. 2121-68.

⁶ See Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez (2014), "Where Is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States," *Quarterly Journal of Economics*, vol. 129 (November), pp. 1553-1623.

our knowledge in recent years, significant gaps remain in our understanding of what factors help and hinder economic mobility.

I will conclude by discussing diversity in the economics profession. Our profession currently is not very diverse, but it needs to be. Only about one-fourth of tenured and tenure-track faculty members in U.S. academic economics departments are women, and only around 5 percent are African American or Hispanic. Yet research conducted by economists as well as other social scientists suggests that a diversity of perspectives and ideas lead to better decisions and increased productivity.⁷ In my own experience, economic policy decisions are better when informed by a wide range of views and experiences. You all here today are crucial to the future of our profession.

Indeed, I hope that by obtaining your degrees and working on economic problems, you will help change the field of economics itself. As in many other fields, economics undergoes continual redesign by its practitioners. We need--and by that I mean society as a whole needs--a more diverse set of practitioners in economics, practitioners who may perceive different questions to be important and different answers to be more persuasive. And so, by joining the profession you can acquire the power to change not only the field, but also the broad set of societal institutions that are influenced by the work of economists.

Economists tend to respond to the results of research. And the research shows the importance of diversity in decisionmaking. As a result, many organizations are working very seriously to become more diverse. At the Federal Reserve Board, these efforts include developing connections with the Economics Department here at Howard. Our

⁷ See, for example, Amanda Bayer and Cecilia Elena Rouse (forthcoming), "Diversity in the Economics Profession: A New Attack on an Old Problem," *Journal of Economic Perspectives*.

economists have recently served as visiting faculty at Howard or have given guest lectures here. During the past spring semester, Board economists served as mentors to Howard master's degree and Ph.D. students. This fall, we are offering a class on statistical programming methods through the university. On October 25th, we will host an open house with the undergraduate economics association here at Howard for students who are interested in learning more about the Federal Reserve. I encourage you to attend. I would also like to make you aware that the Board offers internships to qualified students, including Howard students studying economics. Moreover, the Federal Reserve Board's Office of Diversity and Inclusion is coordinating an effort to increase the diversity of our staff.⁸ Everyone at the Board with responsibility for recruiting, hiring, management, and promotion is involved. But I want to emphasize that these are steps on what will be a long road.

Finally, Board economists are also working to increase our understanding of the diverse economic experiences of different groups in the economy. For example, staff economists have recently been examining the disparities in wealth across families using our Survey of Consumer Finances. Wealth is an important measure of household well-being; it can be used to start a new business, cover expenses when household income unexpectedly falls, and provide an inheritance to children--all factors that influence opportunities for economic advancement. One study finds that factors such as educational attainment and inheritances almost entirely explain the gap between the wealth of white families and that of Hispanic families. Although these factors also

⁸ See Board of Governors of the Federal Reserve System (2015), *Report to the Congress on the Office of Minority and Women Inclusion* (Washington: Board of Governors, March), <https://www.federalreserve.gov/publications/minority-women-inclusion/files/omwi-report-20150331.pdf>.

explain most of the gap in wealth between white families and black families, a substantial portion of this gap cannot be explained by such factors.⁹ Additional research is required to fully explain the difference in wealth across white and African American households.

Thank you for inviting me to speak to you. It would be great to see some of you who are here today going on to influence the direction of the country on any number of issues. To put it in a nutshell, I firmly believe that a degree in economics will equip you for a personally productive and rewarding career, will position you to help make progress on some of society's toughest issues, and will change the field of economics itself.

Thank you for listening--and may you all both enjoy and succeed in your future careers, especially in economics.

⁹ See Jeffrey P. Thompson and Gustavo A. Suarez (2015), "Exploring the Racial Wealth Gap Using the Survey of Consumer Finances," Finance and Economics Discussion Series 2015-076 (Washington: Board of Governors of the Federal Reserve System, September), <http://dx.doi.org/10.17016/FEDS.2015.076>.