

BERKELEY COMMENCEMENT ADDRESS

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It is an honor and a pleasure to be here today. And it is a true delight to be back at Berkeley following my nearly two years at the Council of Economic Advisers.

The class of 2011 has a special place in my heart. I taught many of you introductory economics before leaving for my adventures in Washington. You all were just hitting your stride at Berkeley while I was trying to find my footing at the White House. Then after I came back, I had a chance to teach many of you again this spring, before you head off on adventures of your own.

These days, many people like to disparage academia and the “ivory tower.” They like to draw a distinction between what goes on at a university like Berkeley and what happens in “the real world.”

Well, I have now seen the real world. And I can tell you that there is no better preparation for policymaking, problem solving, and just living a productive life than spending time at Berkeley. This is true for a faculty member and for our students. The intellectual values, knowledge, and skills that one learns at Berkeley are exactly what are most needed in Washington, business, and everyday life.

Today I want to talk about how Berkeley has prepared you to face the adventures ahead of you, just as it helped prepare me to face mine. Reflecting on some of what one learns at Berkeley is a chance for me to give your family and friends a sense of what life is like for a Berkeley economics major or an economics faculty member.

Hard Work. One thing that Berkeley teaches anyone who comes here is the importance of hard work. A new study claims that college students aren’t working as

hard as they did in the good old days. Well, I can't speak for other schools or other departments. But I can tell you that Berkeley econ majors work incredibly hard.

My husband and I just taught an advanced undergraduate course that had close to 100 pages of reading each week, frequent problem sets, a paper, and two grueling exams. The material was so hard it made our heads hurt just to teach it. Yet the students mastered the material, and some even thanked us afterward for pushing them so hard.

Faculty members in our department also work incredibly hard. All of my colleagues' teaching and research awards that Professor Roland described didn't come from long lunches and taking summers off. There is no substitute for hours and hours in front of the computer, and endless thinking about the best way to tackle a research question or to explain a difficult concept.

My time at the White House certainly put that Berkeley work ethic to the test. People working for the President like to say that White House years are like dog years—two can feel like fourteen.

One of the most frequent questions I used to get from friends and acquaintances when I was in Washington was, "So, are you having fun?" I used to say something cryptic like "I am sure I will have had fun in retrospect." But every inch of my body wanted to scream: "Are you out of your mind? The economy is in freefall; I haven't had a full night's sleep since the President nominated me, and dealing with Larry Summers is, believe it or not, the easy part of the job."

Working in the White House was simply the hardest thing I have ever done. But those two years were also the most important and meaningful of my life. Helping to formulate economic policy during the worst recession since the Great Depression was a

responsibility greater than any I could have imagined having. And I firmly believe that the policies we helped put in place, such as the Recovery Act, financial regulatory reform, and the health reform legislation, have already made a positive difference in the lives of millions of American families.

I suspect that you will find something similar in your own lives. The most meaningful and memorable things that you do will not always be fun. Starting a business, getting a graduate degree, or raising a child can be exhausting, frustrating, and sometimes even painful. (Just ask the mothers who gave birth to you.)

But your time at Berkeley has shown you that working hard allows you to accomplish great things. You have learned to set aside some short-run fun for long-run rewards. More hours on Facebook may be entertaining, but they will never be able to compete with the pride and happiness you will feel walking across this stage.

Respectful Debate. A second thing that being at Berkeley teaches you is the importance of asking questions and listening to others. Nothing characterizes this great university better than our love of respectful, but fierce, intellectual debate.

The undergraduate course that David and I taught this spring had more than 200 students. But even so, we had wonderful discussions. We would push the class to critique a reading or derive a model, rather than just tell them what we thought the right answer was. And there were times when students made comments or asked questions that were so perceptive it left us speechless. David and I would often share a look that said, “Why didn’t we think of that?”

Such intellectual exchange is essential in good policymaking. The press enjoyed telling stories of how contentious the Obama economics team was. And it is true that meetings in the West Wing could often feel like a particularly rowdy seminar in Evans

Hall. But President Obama often found it helpful to have different sides of an issue argued passionately.

Now sometimes the discussions could get so frank and freewheeling that it was easy to forget that one of the participants was the leader of the free world. This led to one of my most embarrassing moments in the White House. We were having a spirited discussion in the fall of 2009 about whether the President should call for more fiscal stimulus. At one point the President repeated someone else's argument that given how large the unemployment problem still was and how limited the resources were likely to be, perhaps there was no point in pushing for more stimulus.

Without thinking I shot back, "That is oh so wrong!" The President raised an eyebrow and good-naturedly said, "It is not only wrong, it's 'oh so wrong?'" I had clearly crossed a line.

But the outcome of that frank debate was much better economic policy. The President did endorse a number of additional actions, including more aid to the unemployed and to financially strapped state and local governments. Not everything he proposed made it through Congress, and the additional help was not nearly as large as we needed. But the evidence suggests that even those limited actions raised employment by more than half a million jobs. That's half a million American families who don't have to wonder whether they will lose their home or have to tell their promising high-school senior that there just isn't money to send them to college.

It seems to me that the rest of Washington would function much better if they had learned the Berkeley lesson of respectful debate. Too often politicians question each others' motives and principles, rather than their ideas and policies.

As policymakers face incredibly difficult issues such as the budget deficit, taxes,

and the future of Medicare, they will need to argue and debate as they have never done before. But they should take a lesson from the Bipartisan Fiscal Commission or the group of five senators from both parties who are working together to actually draft budget legislation. If the debate stays substantive and civil, bipartisan agreement is actually possible, even in this highly-charged environment.

Respectful debate and questioning is a value that will serve you well in your future lives. The essence of creativity is the willingness to challenge accepted ways of doing things. You are more likely to succeed in business, come up with a brilliant new invention, or shake up a government agency if you continue to question and debate the conventional wisdom.

Importance of Evidence. A third, and perhaps the most fundamental lesson an econ major learns at Berkeley is the importance of evidence. An econ test rarely asks you to spit back facts. It asks you to analyze an issue and defend your conclusion with economic diagrams and empirical evidence. An economics paper is almost never a term paper that just summarizes an existing literature. It is an analytical essay that asks you to critique a study or suggest a new test of an important question.

Berkeley faculty members excel in many types of economic research. But one of the strongest research areas of our department is creative, convincing empirical work. Berkeley economists don't just say what they think might be true. They gather the evidence to figure out what actually *is* true.

My colleagues have come up with brilliant studies of the impact of aid programs in Africa, the effect of immigration on the wages of American workers, and the relationship between tax policy and inequality. The studies are highly respected for their painstaking data collection, creative use of natural experiments, and frontier

statistical methods.

This respect for evidence was also critical in Washington. With President Obama, you didn't win an argument by having the loudest voice or the slickest political calculation. You won because you have the best evidence on your side.

The Council of Economic Advisers became a research factory modeled on the Berkeley economics department. Indeed, we hired three fabulous Berkeley graduate students and one of our young professors just to make sure the CEA was as strong as it could be. When policy issues came up, CEA economists searched the literature for studies and carefully evaluated the evidence. When the necessary studies hadn't been done, they did journal-quality research, but on a Washington, I-needed-it-yesterday, time line.

The Council prepared presentations for the President that included regressions, survey data, and pages of graphs. My White House colleagues sometimes suggested that I water the presentations down to make them more accessible. But I found that the President appreciated the technical details. You should have seen the jaws drop in the Oval Office the day he asked about an extreme observation in a scatter plot I was presenting. The President was not only following the technical material—he was critiquing it.

Now Congress is not always as attentive to careful research as it should be. Some policymakers don't care how good a study is, as long as they agree with the conclusion.

But in the end, good evidence tends to carry the day. I'll give you one example. Everyone knows that we have a terrible budget deficit and we will need to take aggressive action to get it under control. But there is a lot of debate about the best way to go about reducing the deficit and, especially, when is the right time to do it.

A year ago, many policymakers were claiming that trimming the budget deficit immediately would be good for the recovery and help bring unemployment down. Now this claim goes against basic economic theory that holds that fiscal expansion, not fiscal contraction, will lower unemployment. But the most prominent study on the issue, which involved only a superficial look at the data, appeared to find that fiscal contractions actually stimulated the economy.

But a new study done by a team of scholars looked at the issue much more carefully. They identified fiscal austerity programs in 15 countries over 30 years using a careful reading of the policy record. The researchers then looked at what happened to output and employment after countries undertook programs to reduce their deficits. Output most definitely fell and unemployment rose.

This study has had a big impact on how many countries around the world are thinking about dealing with their deficits. Everyone agrees that it is essential to pass a plan right now that specifies how the deficits will be reduced over time. But there is increasing support for the notion that the actual spending cuts and tax increases should occur only gradually as the recovery strengthens.

This fundamental respect for the evidence is a Berkeley value every policymaker should have. And it is one that will serve each of you well as you take on new challenges.

If you go into business, I hope you will never “follow your gut.” Instead, do the research; question smart people; and follow the evidence.

When you are deciding what charity to give to, what car to buy, or the best medical care for your child, I hope you won't be swayed by flashy ads, word of mouth, or what you heard on Oprah. Instead, read everything you can find and make choices based on the facts.

And if, as I dearly hope, some of you go into government service or even politics, don't just think what your colleagues tell you to think or even what you learned in college. Read the memos, ask the hard questions, and insist on the strongest evidence.

Conclusion. Today I have been extolling Berkeley's intellectual values. All of us who have been privileged to spend time at Berkeley have been given a gift. We have learned the value of hard work, respectful questioning, and the power and importance of good evidence. These are exactly the intellectual values that are essential to good policymaking, success in business, path-breaking research, and just about anything else you want to do with your lives.

But there is another value that also infuses Berkeley that may be even more important. That is a deep concern for the world around us.

You feel this value every time you walk through Sproul Plaza. There are always hundreds of people raising money for some cause, protesting some injustice, or advocating for some policy. You may have different opinions on the particular issues, but you can't help but celebrate the fact that Berkeley students care enough to out there working for what they believe. This is a university whose heart is every bit as big and strong as its head.

My greatest wish for you—the class of 2011—is that you take the incredible intellectual skills and values you have learned, and combine them with that passionate Berkeley heart. Use the gifts you have been given to build a better future for yourselves, your families, and especially for a country that is depending on you.