

Remarks by Vice Chair Alice M. Rivlin

On economic literacy

**At the Economic Literacy Conference, Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota
May 13, 1999**

I am delighted to have the opportunity to participate in this symposium on economic literacy. Economic literacy happens to be one of my favorite causes. I'm very pleased, both personally and on behalf of the Federal Reserve Board, to associate myself enthusiastically with the efforts of all the participants in the symposium who have come together from different places to think about how to improve the ability of Americans to understand and deal with basic economic issues.

There are two senses in which increasing economic literacy contributes greatly to the functioning of our society. First, a free market economy works well only when the participants--producers, consumers, savers, investors--have the information they need to make intelligent decisions. People need to understand what banks do and how to deal with them; how insurance works and how to think about how much they need; why saving is important and what instruments are available for saving; what investing means, how to do it and what the risks are; and the concept of investing in themselves and how to get a good job. Most important, participants in the economy need to know how to think about the economic choices they face and how to get the information they need to make intelligent decisions.

Second, democracy works well only when citizens participate, vote and make their views known to public officials. In this respect, we seem to be living with a paradox. On the one hand, the revolution in communications means that citizens have access to far more information on public issues than ever before. Radio, television and the Internet are inundating all of us with news, analysis, opinions and debate on public issues, large and small. Citizens have more education and more ways of communicating their views to public officials than they had in the past. They can write, call, visit or e-mail their members of Congress or their state or local legislative representative. Indeed, members are flooded with constituent views. Citizen opinions are constantly being sought in polls or on talk radio.

On the other hand, public issues, especially economic issues, seem to have gotten more complex and harder to understand. Globalization and rapid advances in technology mean that events in remote parts of the world that we do not know much about can affect economic life in the United States and vice versa. Markets in distant places are intimately interrelated; huge amounts of money move around the world in seconds. The interactions and interrelations of markets and economic institutions in different parts of the globe are complex and unpredictable.

But even at home, public issues appear to have gotten more difficult for the average person to understand. It may be partly because we solved a lot of the easy problems, and they left harder ones in their wake. Whether or not the government should provide health insurance

for people over 65, for example, was a relatively straightforward problem, although emotions ran high on both sides. How to finance and administer the Medicare program, so that it provides adequate coverage at containable cost is a lot more complex and intellectually demanding issue.

Adding to the complexity of the issues is the fact that we now have a whole new class of experts, sometimes known as policy wonks, with charts and equations, statistics and data sets, models and printouts. These people--and I freely admit to being one of them--have higher degrees from our best universities. They are supposed to be helping decision-makers and the public understand issues better and make more intelligent decisions. But they often talk in a jargon-filled specialized language of their own and sometimes seem more concerned with impressing each other on talk shows, at legislative hearings or in public forums, than with enlightening the public. Rather than simplifying the decisions, the chatter of the talking heads often seems to make issues seem even more complex and hard to get a handle on than they really are. The combination of overwhelming quantities of information, the increasing complexity of the issues and the tech-speak of the policy wonks constitutes the fundamental challenge to economic education.

Without a basic understanding of how the economy works, what the essential terms and concepts are, the average citizen is likely to feel completely left out of any conversation, whether in the media or around the water cooler, about what is happening in the economy and what to do about it.

Feeling left out is frustrating and alienating. If talk is unintelligible--if the listener is without keys or clues or a basic framework into which to fit what is being said--then it is natural for the listener to tune out and to feel powerless, ill-used, manipulated and even feel that something sinister or nefarious must be going on from which he is being intentionally excluded.

In order to feel included and empowered, a citizen needs to have a basic understanding of how the world works--in this case how the economic world works--that will provide a basis for asking pertinent questions, obtaining more information and eventually figuring out what the issues are all about and what ought to be done.

Economic literacy is akin to having a working knowledge of a foreign language. If you are with a group of foreigners and don't speak their language at all, especially if its sounds and intonations are strange and unfamiliar to your ears, you tune out. You feel excluded, perhaps uneasy. If you have a rudimentary working knowledge of the language, you can at least follow the drift of the conversation, ask a few questions and feel that, even if you are not getting the fine points, you are not totally left out and you have a basis for acquiring more knowledge. That, it seems to me, is what economic literacy means--a rudimentary working knowledge of the concepts and language of economic activity and economic policy.

I said the language of economic activity and policy, rather than the language of "economics." I make the distinction because the word "economics" suggests the academic discipline taught in colleges and universities. That discipline, I am afraid, has become so abstract, so obsessed with mathematical modeling of an unreal world where economic actors have perfect knowledge and unambiguous profit-seeking motives, that it frequently does not have obvious relevance to what average citizens need to understand about economic activity and economic policy choices. The teaching of economic literacy does *not* mean teaching a dumbed-down version of a graduate economic theory course. It's harder than that. It means

starting from the complex ambiguous real world that we *all* find ourselves in (whether as producers, consumers, savers, investors or economic policy makers), figuring out the basic concepts that people need to grasp in order to function and feel empowered in that real world, and then helping them learn a rudimentary working knowledge of *that* language.

I have long been impressed with the ability of quite young children to grasp ideas about buying and selling, saving and investing and even basic ideas of how economic policy works. Economic literacy ought to start in kindergarten and continue right through primary and secondary school.

I have also long been impressed by the power of role-playing as a teaching tool. I was delighted when I came to the Fed to discover that we sponsor "the Fed Challenge"--a contest for high schools with which many of you are doubtless familiar. Teams of high school students assume the roles of members of the Federal Open Market Committee (FOMC) and debate current monetary policy. The finalists in the contest get to come to Washington and hold their monetary policy debate around the actual Board room table where the real FOMC gathers eight times a year.

I have been a judge for this contest twice and enjoyed it enormously. As I told the students, in all honesty, their discussion was every bit as informed and insightful as the real meetings of the FOMC. If we turned monetary policy over to the winners of the Fed Challenge, the real FOMC could retire and the nation's economy would be no worse off.

I am also convinced that if the schools do a good job of teaching economic literacy and the businesses, banks, unions, and governmental institutions lend their support and help further the economic literacy of their employees, members, customers and clients, then not only will the economy work better, but economic policy will be better informed and more effective.

Even policymakers need help. Years ago when I first went to Capitol Hill to direct the newly established Congressional Budget Office, a group of freshman members of Congress came to me and said, in a sort of embarrassed whisper and out of earshot of more senior members, that they found themselves mystified by the federal budget and all this talk about deficits and debt, appropriations and authorizations, effective tax rates, multipliers and fiscal policy. Was there any way, they whispered, that I could arrange a course that would help them understand what they needed to vote about. I agreed, and recruited a couple of policy economists that I knew to be excellent teachers. We had several sessions and had quite a good time.

A few years later, in the '80s, when mounting federal budget deficits were an urgent problem, the Committee for A Responsible Federal Budget launched "A Exercise in Hard Choices," in which groups of people in various parts of the country gathered around tables and actually tried to balance the federal budget by cutting specific programs and raising particular taxes. The participants learned a lot about how hard the choices really are. The exercise shook up a lot of people who had been saying, "Oh, those idiots in Washington, why don't they just balance the budget by cutting out all that government waste." They discovered that there isn't a line-item in the budget called "wasteful programs." One person's wasteful program is another's high priority. We also did the "exercise in hard choices" with a group of Congressmen and Senators, fairly senior ones, as I remember. They also learned a lot, believe it or not. Members who were not on the budget committees had their own areas of expertise depending on their subcommittee jurisdiction, but they had not looked at the whole budget and tried to make the spending and revenue sides balance. They, too, learned

how hard it was.

This type of experience has brought home to me, not only the learning value of role playing, but the importance of getting students involved in actually making economic choices and not just hearing people talk about them.

And then there is the role of the media, which, it seems to me, could do a lot better in furthering the cause of economic literacy and possibly even build their audience in the process. One problem is the presentation of the statistic of the day on, say, the evening news. The audience learns that the Consumer Price Index went up .4 percent or that housing starts went down, but is given no context into which to fit the information.

The weather reporters do better. Their audience can watch storms developing, temperatures rising or falling. There's a map that puts the isolated statistics into contexts and allows the audience to see the patterns develop. The economic reporters have no economic map on which to show the audience how the economic patterns are developing. The assumption is that the audience would tune out. I'm not so sure; pocketbook issues rank right up there with the weather in importance to people.

Another problem with TV economics is the persistent view that what people want is controversy between two sides (always two, never three) of an issue, and hence that the best way to enlighten the public is to get two talking heads with extreme opposite views to shout at each other. Maybe people like that style--I don't--but I don't think they learn much that helps them or their elected representatives craft more moderate, constructive solutions that might command a consensus.

In sum, my view is:

- Increasing economic literacy is important to the functioning of the economy itself and in making better informed economic policy in our democracy.
- We don't do a very good job now--on the average.
- There are lots of good techniques available to increase economic literacy, especially role-playing about economic choices, public and private.
- The technology would allow more effective daily economic education, especially on TV and over the Internet.

You all are going to have plenty to talk about tomorrow. I'm glad this Summit is taking place. Thank you for asking me to participate.

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