Creating a Lifetime of Better Economic Outcomes

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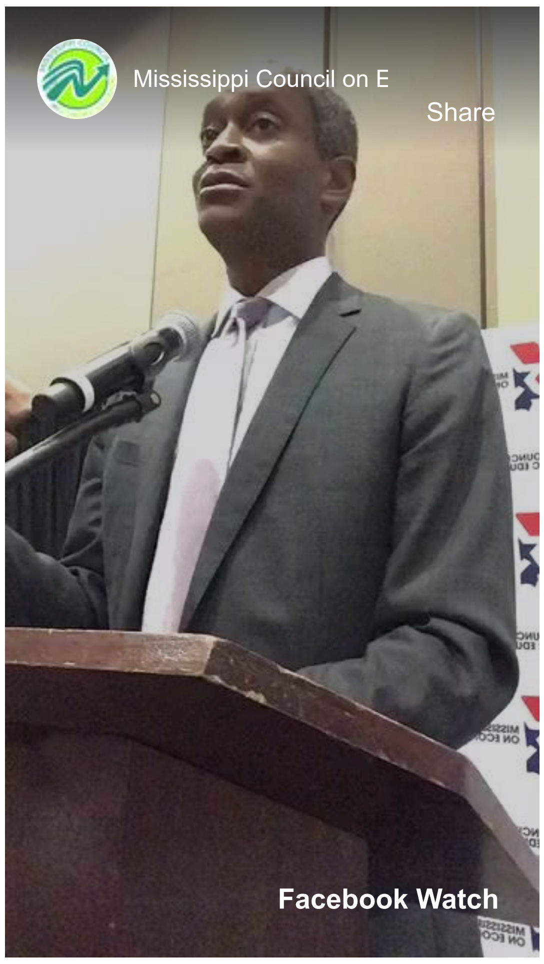

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- Atlanta Fed president and CEO Raphael Bostic speaks to the Mississippi Council on Economic Education about the importance of economic education and diversity in economics.
- Bostic discusses international trade as one example of why economic education is essential to our civic lives. International trade has played an increasingly important role in the U.S. economy. Reasonable debate about trade policies needs to be informed by the full picture, not by a single-minded focus on either costs or benefits alone.
- Bostic: Assessing the impact of international trade is difficult, and assessing the effect of trade policy can be even more so. For example, the uncertainty touched off by trade restrictions can easily affect firms' decision making.
- Bostic notes that the fields of economics and finance lack diversity, with women and minorities underrepresented. To increase diversity, he says we should introduce students to economic decision-making during the earliest days of their education. Federal Reserve staff are creating engaging lessons for elementary school teachers to use to introduce key economic concepts to the youngest students.
- Bostic: When the economy is doing well and standing on its own, as it is now, I think monetary policy ought to be moving toward a neutral stance.

It's a pleasure to be with you at this forum today. I think we can all agree that basic knowledge and information about how to fully participate in the financial system are essential to the success of our economy.

As many of you know, we have a program at the Atlanta Fed that focuses on economic and financial literacy. Critical to that program are partnerships with organizations like the Mississippi Council on Economic Education. My colleague Adrienne Slack's presence on your board of directors and the programs and workshops that Claire Loup and the council work on together demonstrate our commitment to this partnership and our shared mission of economic and financial literacy.

The Atlanta Fed supports these efforts across the six states in our District. For example, I spoke with economics teachers at Florida Gulf Coast University in Fort Myers, Florida, on financial literacy and economic opportunity this past spring, and our Bank is a longtime partner of the Georgia Council on Economic Education. I've learned a lot from those experiences and have seen some inspirational things. So it's an honor to talk with you today.

Today I want to talk about economic education and the important role that it plays in our civic lives. This is a soapbox issue for me, and I will try not to be too preachy. But it's too important to ignore, and so I'm going to lean in on it. I will emphasize two aspects of economic education. First, I will highlight its importance for an issue of current policy concern—international trade. It is clearly a contentious and complex topic, but that makes it an excellent example of how equipping students with the basic tools of economic reasoning can enhance the public debate and, ultimately, consensus building.

Second, I want to discuss economic education in the context of what I see as unfortunate facts: the economic profession is not often enough the field of choice for some of our best and brightest, and it remains stubbornly unrepresentative of the population. I think all of us with a passion for advancing economic education and literacy should work hard to ensure that we increase the pool of young people who find economics interesting and exciting and that we add diversity to the profession. I'll close my remarks with a few brief comments on the economy and policy.

As always, the views I'll offer are mine alone. I don't speak for the Federal Open Market Committee (or FOMC) or for any other Fed official.

The important role of economic education and understanding trade
I'll begin, then, with my first point: the importance of economic education in our civic lives in the context of international trade, and I'd like to start with a story.

Last month, I participated in an event with the World Affairs Council on NAFTA, or the North American Free Trade Agreement. One of the attendees asked me why trade matters for monetary policy, and I talked through the issues with her. Her gratitude, and admission that she had not heard this before, surprised me, and made it clear that more needs to be done to explain the basics of international trade and why it matters to a monetary policymaker. So I will try to make progress on that front today.

Foreign trade has played an increasingly important role in the U.S. economy over time. Over the past 30 years, the value of U.S. exports—the goods and services we sell to the rest of the world—has risen by about $2 trillion in today's dollars. Imports—the goods and services we buy from the rest of the world—have increased by $2.5 trillion over that same period. As a result, almost 28 percent of the nation's gross domestic product (GDP) is now linked to the international trade of goods and services.

This growing international dimension has important ramifications for how the U.S. economy operates. For example, even though the largest share of consumer spending goes to goods that are produced in the United States, imported components are often used in the production process. Hence, part of the spending on items "Made in the USA" also pays for imported components and services.

Here in Mississippi, we need only look at the automotive industry to see that force in action. From major auto assembly plants operated by Nissan and Toyota to vehicle parts suppliers scattered across the state, the industry relies on a global supply chain to bring products to U.S. consumers quickly and efficiently.

At the same time, when someone buys something labeled "Made in China," that doesn't mean all of the retail price goes back to the Chinese producer. There are all kinds of local content going into that retail price, including some fraction of the profits, rent, marketing, distribution, and transportation costs, as well as the wages paid to workers here in the United States.

Some imported products, like cell phones, even contain components that were produced in the United States and then exported to a foreign manufacturer for assembly. Foreign trade linkages are complex and not readily transparent.

The impact of trade on jobs can be similarly complex. While jobs are created and supported as a result of foreign trade, other jobs are at risk because of the competitive pressure of foreign production.

Regarding jobs at risk, think back to the decline of the cut-and-sew apparel industry in Mississippi during the 1990s to recognize that the disruption caused by new foreign competition can be dramatic. On the other hand, the Southeast's foreign auto plants, for example, have grown to be important exporters of vehicles to places like China, Canada, Germany, Great Britain, Mexico, and the Middle East.

If assessing the impact of international trade is difficult, assessing the effect of trade **policy** can be even more difficult. Economic reasoning tells us that what might happen in the future can affect behavior every bit as much as what is happening today. In practical terms this means, for example, that the uncertainty touched off by the imposition of trade restrictions can easily affect firms' decision-making, independent of the direct effects of the restrictions themselves.

In a recent *macroblog* post published on our website, my staff at the Atlanta Fed reported on the results of a survey that asked whether firms are reassessing their capital investment plans in light of recent tariff hikes and fears of retaliation. An uncertain outlook can cause firms to delay investments while they wait to see how the situation unfolds. Such a development could grow to have macroeconomic ramifications the longer the uncertainty remains.

The survey results showed that about one-fifth of the firms surveyed in July say they are reassessing their capital spending plans in light of tariff worries. But only 6 percent report they are actually cutting spending or deferring previous plans in reaction to tariff worries. These findings suggest that tariff worries have had only a small negative effect on U.S. business investment so far.

Still, there are reasons for concern. First, 30 percent of manufacturing firms report they are reassessing their capital expenditure plans because of tariff worries, and manufacturing is highly capital intensive. So the investment effects of trade policy frictions are concentrated in a sector that accounts for a substantial share of business investment.

Second, 12 percent of the firms report they have placed previously planned capital expenditures under review. Third, trade policy tensions between the United States and China have only escalated recently. The negative effects of sustained tariff worries on U.S. business investment could easily grow.

Global interconnectedness is a fact. Its effects—and the effects of policies aimed at altering the landscape of international trade—are far from straightforward. The distinction between "Made in America" and "Made in China" is not always clear-cut. Trade poses competitive threats to many businesses and workers, but also has clear benefits for many others.

Trade policies are not implemented in a vacuum, and perceptions of how our trading partners will respond to our actions can either accentuate or counteract the policies' intended effects. Reasonable debate about trade policies needs to be informed by the full picture. We will only talk past one another by pursuing a single-minded focus on either the costs or the benefits of trade and trade policy alone.

This is precisely why the work all of you do to promote economic education really matters to our nation's future. We need the voices of informed consumers to help shape effective policies and practices that are grounded in factual analysis and sound economic basics.

The case of international trade I have been discussing is just one example. Other questions that are vital to our collective futures include the effects of fiscal deficits and options for addressing them, the causes and consequences of wealth and income inequality, the case for and against independent monetary policy, and the value of market interventions of various sorts. In my view, basic economic literacy is the necessary foundation for understanding, let alone addressing, the challenges these questions pose.

Diversity in economics and finance

I'd like to use the balance of my time to share a few thoughts about a challenge we are facing in the field of economics—one that we need your help in addressing. It is widely recognized that the fields of economics and finance lack diversity, with women and minorities underrepresented among economists and finance professionals.

You should know that, for me, this challenge is personal. I discovered economics by accident. I was a good student in math through middle and high school, but had little formal schooling in economics or any kind of finance by the time I graduated. I found economics only after a particularly harrowing experience in an introductory chemistry class, which led me to find other channels to pursue academically. First, I studied psychology and, after that, economics. While I am very fortunate that serendipity worked in my favor in this case, I am committed to working to see that dumb luck doesn't turn out to be the field's main recruitment strategy.

In thinking about the lack of diversity in my profession, one explanation I have gravitated toward is that the pool of minority and women candidates coming to the market on an annual basis is too small to make a dent in longstanding shortfalls. For example, there were fewer than 25 African American economics doctoral students on the market for U.S. junior academic economic positions this year. That's 25 total. With numbers this small, it is unlikely that the vast majority of institutions could become measurably more diverse, even when devoting significant energy and resources toward this goal.

I think we need to focus on both improving instruction and becoming more targeted in our approach. To improve instruction, we should build on the outstanding work of partners like the Mississippi Council for Economic Education to strengthen the instruction of economics and personal finance among high school students. As you know, the council partnered with the Mississippi Department of Education to create master teacher programs in economics and in entrepreneurship. Both of these are state-endorsed certificate programs for secondary social studies and business education teachers.

This year, the Atlanta Fed and the St. Louis Fed partnered with the council to develop a "master teacher in personal finance" program, one that I hope will become another state-endorsed certificate for Mississippi's teachers. After a successful pilot this summer, the curriculum is being finalized and readied for implementation. I strongly support these types of certification programs because they equip and empower teachers to provide engaging instruction that excites students.

Regarding developing targeted approaches, the Financial Services Pipeline Initiative in Chicago has found that African Americans' and Latinos' interest in working in the financial services industry often crystallizes during the high school years, compared to college years for whites.

This suggests that, to increase diversity, we should introduce students to economic decision-making much earlier, during the earliest days of their education. In that spirit, economic education staff across the Federal Reserve System are creating engaging lessons that elementary school teachers can use to introduce key economic concepts to the youngest students. This approach strengthens students' ability to make good decisions and engage with the economic systems that will lead to a lifetime of better economic outcomes.

I am actively working with my colleagues across the System to develop a program to help address these issues. We are in the early stages, but I think we can build on our existing programs and deepen partnerships like the one we have with the Mississippi Council on Economic Education to spark the imagination of all students, but especially female and minority students, to pursue a career in economics and finance.

Let's be sure to continue to promote the economics profession as a place where bright, curious people from all backgrounds can roll up their sleeves to help solve real problems that affect individuals, businesses, and nations.

Finally, let me say a few words about the economy and policy. As you may be aware, the FOMC has two mandated objectives: maximum sustainable employment and price stability, which the Federal Reserve has defined as 2 percent inflation. Relative to both of those objectives, the economy is performing quite well.

The unemployment rate is low relative to historical standards and has been at or below 4 percent since the spring. You'd have to go back nearly 20 years to find a similar performance. This suggests we are at, or at least very close to, full employment.

GDP growth in recent years has been quite robust, helping to support the strong labor market performance we are enjoying. The recent economic data suggest that output growth is likely to continue at an above-trend pace in the current quarter. One particularly bright spot has been consumer spending, which rebounded sharply in the second quarter, and looks similarly strong currently.

Against the backdrop of a full-employment economy, we have also moved much closer to our price-stability mandate. Underlying measures of inflation such as the core personal consumption expenditures (PCE) price index and the Dallas Fed's trimmed-mean price index both hit 2 percent in July. There is little evidence to suggest that inflation is accelerating materially beyond this.

When the economy is doing well and standing on its own, as it is now, I think monetary policy ought to be moving toward a neutral stance. For me, this means a gradual increase in nominal interest rates over the next handful of quarters.

Thanks, and now I'll be glad to take some questions.

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