WELCOMING REMARKS
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I wonder how many of you bankers and businesspeople here this morning can honestly say you knew the difference between fiscal policy and monetary policy when you graduated from high school? Or that you had even heard of either term? I admit that I did not know the difference, and I am equally willing to wager that very few indeed at this breakfast did either. On the other side of the coin, I would bet that most of us knew exactly how much money we needed to have in hand to buy our first car.

The French have a saying: *plus ça change, plus c'est la même chose*--or--the more things change, the more they stay the same. In the case of economics education, high school seniors still lack knowledge about basic economic principles, while they continue to be better-versed in what it costs to buy something that will enhance their personal stature--not unlike the rest of the populace. According to a national survey of American economic literacy done by The Gallup Organization earlier this year, more than 80 percent of those polled said that they did not know much about economics, rating their knowledge as either fair or poor. This estimation was readily reflected in the low level of correct answers to specific questions about the national economy, ranging from the role of profits in our economic system to the definition of the Federal budget deficit. In fact, the majority of those surveyed thought that the basic purpose of corporate profits was either to pay for the wages and salaries of workers or to transfer income to the wealthy.

As a central banker, I am vitally concerned about the level of knowledge of economics in our nation. One national discount apparel retailer (Syms) has as its motto, "An educated consumer is our best customer." I would like to borrow that line and rephrase it this way: "An educated consumer is our best hope for America." On the personal level, becoming an educated consumer is good for each person's pocketbook. On a broader level, becoming an educated consumer will also help people to understand how our economy works, thus enabling each person to make better choices in their own lives and, ultimately, for the nation. After all, legislators and policymakers are trying to reflect the demands of their constituents. That is why I believe that consumer education efforts such as this Money Expo and more education at the high school level are so important for the future growth of the United States.

Results of the Economic Literacy Survey

To explain why we need more consumer education on economics, let me describe some of the discouraging results from the economic literacy survey. Some of you may remember reading about it in the *Wall Street Journal* or the *Atlanta Journal-Constitution* about a month ago. Three different groups were surveyed--the general public, high school seniors, and college seniors. Of these groups, even the most educated, the college seniors, could correctly answer only half of the basic economic questions. The general populace weighed in with only 39 percent correct answers, while high school seniors knew only about one-third of the answers.

I would like to focus on a few of the specific questions and answers to illustrate how seriously inadequate is the general public's knowledge of economic issues. For instance, when asked what the national unemployment rate was--at the time of the survey, it stood at 7.3 percent--only about 20 percent of the 1,000 respondents gave the correct answer of 7 percent. Almost one-third said they did not know, while about 10 percent said they thought it was more than 23 percent!

The news was even worse for the inflation rate--something any central banker cares about deeply. At the time of the survey, the rate was 3.2 percent, but almost half of the people queried said they did not know what the rate was, while only about 10 percent gave the correct answer. More disheartening yet, only a little more than a third of those surveyed in the general public knew that the most widely used measure of inflation is the Consumer Price Index.

The Federal Reserve did not fare any better in terms of what people know about our function and purpose. For instance, only a quarter of the high school students, a third of the general public, and about one-half of the college students had any idea that the Federal Reserve sets monetary policy in the United States. Sadly, even fewer could pick out an example of monetary policy in action from a list of three choices. The choices were the discount rate (the correct answer--it is the rate charged banks that borrow money from the Federal Reserve), federal government spending (which, of course, has to do with fiscal policy), and corporate profits.

What Do the Survey Results Mean?

All of this suggests that most people do not understand basic economic facts or issues.

As the report stated, "This economic illiteracy has the potential to misshape public opinion on economic issues and to lead to economic policies that have negative or perverse effects on the economy."

Fortunately, not all the news was so bad. On topics that most directly affect people's lives--such as wages, purchasing power, and prices--the general public showed it was more knowledgeable. For instance, when asked which actions might be most likely to improve wages of American workers, about two-thirds of the public recognized that an increase in productivity would do more than an increase in stock market prices, business inventories, or interest rates. Similarly, almost two-thirds also knew that the inflation rate most affects their purchasing power.

A problem crops up, however, when people are interested in their pocketbooks without understanding how underlying economic issues actually affect their pocketbooks. That is, we then have a clear case of a little knowledge being a dangerous thing. If the general public is indeed aware that inflation can eat away at the purchasing power of their income, and yet many of these same people do not even know what the actual inflation rate is, then they are less likely to understand why the Federal Reserve takes certain actions to keep inflation down. Conversely, they will also not understand, in this time of low inflation and slow growth, why we have adopted a posture of cutting interest rates to spur consumer purchasing and ultimately more growth.

The Consumer Debt Buildup in the 1970s and '80s

Let me take a moment to explain my views on why we have entered a period of slower growth in this nation. Basically, a huge debt is burdening the nation. As a result of the debt buildup during the 1970s and '80s, businesses and households are being forced to make a painful transition. Of course, there is nothing wrong with debt per se. Borrowing is a standard means by which businesses expand, and there is no theoretical basis in finance or economics for selecting the optimal amount of debt versus equity. Unfortunately, rather than investing as much as we should have, Americans used this debt buildup to consume more than we produced. This penchant toward debt occurred in all sectors of the economy--households, businesses, and especially the federal government, which began to run massive budget deficits. Now we must service that debt.

Why did we take on so much debt as a society? In my opinion, many households and businesses had become used to the high inflation of the 1970s and early 1980s. In an inflationary environment, debtors are the biggest winners because they can pay back what they have borrowed in "cheaper" dollars. In fact, though, inflation has diminished. As this change became apparent in the late 1980s, businesses and consumers began scrambling to de-leverage in order to reposition themselves for a less inflationary economy.

Now while this analysis may sound pretty bleak, I do not want to draw an overly pessimistic picture. There are, to be sure, some positive developments in the offing. Balance sheets have been improved considerably as corporate debt has been worked down. No business is likely to forget--or repeat--the painful memory of this adjustment process anytime soon. In addition, major sectors of the economy are making fundamental changes in the way they do business. In the service sector, for example, many firms are downsizing. This shift is particularly apparent in retailing, airlines, and banking. These firms are becoming more productive in the process.

Similarly, consumers have also been downsizing in terms of debt. Also, as the interest rates have been lowered, many homeowners have refinanced their mortgages. These changes, along with a certain amount of pent-up demand, should help to spur more consumer spending over the next year, which will create a more solid base for growth.

How to Fix Economic Illiteracy

In the meantime, however, it is important to begin work on solving the economic illiteracy illustrated by the economic survey. The majority of all those who responded said that schools should teach more about how our economy works. I believe that those who are teaching economics to our elementary and secondary students are perhaps in the best position to help Americans make the most of our long-run economic opportunities and do the best we can in grappling with complex problems. Economic education does far more than help students learn how to balance a checkbook and manage their personal finances, although these basic skills are sadly lacking in too many adults, and that is why the Money Expo is such a useful event. More basically, economics training helps students think clearly and critically about practical problems.

The study of economics promotes clear thinking first and foremost by crediting people with being rational. That is, it assumes that people do things for a reason. It credits taxpayers with recognizing gimmicks for what they are--very often simply transfers of spending and taxes from one period to another. It also creates a desire to find out why things happen the way they do and to try to figure out what will result in the future from certain actions taken now. By helping people develop a concept of dynamic, rather than of static, equilibrium we are preparing the voters of tomorrow to see how actions taken today will affect the long term. For example, people want better schools, strong defense, and social programs such as Medicare, but they do not want to pay for them in the form of higher taxes. This popular attitude of wanting to have it both ways has helped to create overwhelming budget deficits in this country. Until each person in the United States better understands the basic principles of economics, we are likely to repeat the same mistakes.

Conclusion

I, for one, do not believe we are doomed to repeat mistakes, but I am concerned about the level of understanding about economics in this nation. We must remind ourselves that educated consumers are more likely to make better choices for themselves and, ultimately, for our nation--and so we must get out and educate them. Let me congratulate Financial Media Services for being willing to take on this challenging task through the Money Expo.