The Role of Central Banks in Economic and Personal Finance Education

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Good morning. I am delighted to be here today in Warsaw to meet with this diverse group of central bankers and education leaders from around the world. I hope in my comments today I can convey a sense of the enthusiasm and engagement with which I and my colleagues within the Federal Reserve System approach both the need for and the provision of economic and financial education. As we engage the public in current policy issues or as we and our staffs try to make the underlying concepts of our market-based economy accessible and interesting, there is, I believe, a very real commitment to this as a vital central bank activity.

I want to thank the National Bank of Poland and the ECB for their foresight in conceiving of a conference on "The Role of Central Banks in Economic and Personal Finance Education," and for the efforts of their staffs in turning that concept into a reality. I'd also like to thank my colleague Steve Malin from the Federal Reserve Bank of New York for his work on the Conference and his invitation to speak. My comments today focus first on why the Federal Reserve System focuses attention on these areas, and second on some lessons I believe are important as we strive to make our efforts as effective as possible.

At the outset, let me say that central bank support for economic and financial education is a form of enlightened self-interest. We recognize that an informed public -- a public that understands our role in the economy -- will be far more likely to understand and accept the reasoning behind the difficult decisions that central banks sometimes have to make. Moreover, monetary policy must consider such matters as inflation expectations on the part of consumers, businesses and markets, and their confidence in central bank resolve -- so as we make and implement policy, public understanding of economic and financial matters is very helpful.

Underlying that, however, is an even more compelling reason for our involvement: for anyone living in a market economy, understanding basic economic concepts and making sound financial decisions are essential survival skills. These same skills also inform the decisions that individuals make as citizens. And those informed decisions help to shape sound economic growth.

Last, but by no means least in the case of the Federal Reserve System, the U.S. Congress has charged us with helping to assure that financial services and access to credit are available and accessible on as broad and as fair a basis as possible. In carrying out this very important responsibility, we employ the carrot as well as the stick, as the saying goes. The stick is regulation and supervision, and the carrot involves our convening abilities and, increasingly, our capabilities in the areas of economic education and financial literacy.

Using our stick, we write and enforce regulations to ensure that banks treat their customers fairly and that they serve their entire communities, including low and moderate income neighborhoods. If examiners find that a bank's performance is lacking, that bank may find other aspects of what it is doing that are subject to regulation affected in some way.

But we also have carrots to go with our stick. We can convene groups to get communities and financial institutions working together on issues of fairness and access and when we invite organizations to the table they usually come. But increasingly, we see a need and an opportunity to play more of a role in advancing economic and financial literacy.

What does it mean to be economically and financially literate? The answer to that key question depends on who you ask.

Consumer advocates believe we should concentrate on teaching people to be smart consumers, shop wisely, and avoid the pitfalls of the marketplace.

Proponents of financial literacy prefer to focus on individuals making wise financial choices that will lead to using money wisely and building wealth over a lifetime.

And the umbrella of economic education covers a variety of views. One school of thought favors the straightforward teaching of basic economic concepts. Another promotes the virtues of entrepreneurship. Others would use economic education to advance specific arguments: the virtues of free trade, the imperative of saving, the benefits of certain government programs, the costs of higher taxes – the list is endless.

So, which approach is best? Rather than spending time and effort debating a question that has no single right answer, we might do better to adopt the view of the great English economist, Alfred Marshall, who saw economics as "the study of mankind in the ordinary business of life." Marshall's words suggest that our best chance for success lies in helping people to make the connections between economics and the ordinary business of life -- connections that include the ability to make sound financial decisions, build wealth, safely navigate the hazards of the marketplace, and evaluate the policy decisions that face all citizens.

At the Federal Reserve, our commitment in this arena is deep and longstanding. Originally, much of the emphasis was on the workings of the Fed – our structure, our various functions, how monetary policy is made. The goal was to remove some of the mystery surrounding the central bank and, hopefully, build confidence in its operational excellence and the quality of its decision-making. As part of this effort, many of the Reserve Banks give tours of their facilities. A visit to the gold vault at the Federal Reserve Bank of New York was always – and still is – a great hit. And both Governors and Reserve Bank Presidents feel strongly about the need to inform and educate the public about monetary policy and our various economic perspectives. I believe the resulting insights are important bulwarks to our credibility as policy-makers.

The Federal Reserve also has a long involvement in economic education more generally. As I already noted, a public that understands basic economic principles and how the economy works will have a better understanding of the decisions made by policy-makers, including the Federal Reserve System. They will be better informed and more effective as citizens. They will also be better informed in their individual lives as consumers, workers, business owners, and providers for their families and their own financial security.

The System has a number of programs and publications that focus on teaching economics, both directly and through providing support services to high school and college teachers of economics. For example, we in Boston produce an economic education newsletter for teachers, administrators and the general public. This provides clear and concise discussions of key issues that teachers can use in developing their lesson plans, as well as a wealth of references to other resources. In addition, because the writing is lively and the illustrations are colorful, many teachers provide the newsletter directly to their students. Other Banks offer very similar materials, and we increasingly work together to provide the variety of materials and formats teachers need.

Over the past 10 years, however, there has been something of a shift in emphasis. Increasingly, the Federal Reserve System, along with other organizations, sees a need for greater attention to financial literacy as opposed to traditional economic education. As I noted before, financial literacy refers to the ability to make well informed personal financial decisions.

Among the reasons for the growing urgency attached to financial literacy are a proliferation of sophisticated financial products and new financial services providers. I must say that even I need a little tutoring to understand all the potential pitfalls of the new mortgages that have become commonplace offerings by banks and nonbank providers in the U.S., so I have a lot of sympathy for the first time low or moderate income home buyer. And technological change has made the lending process at once easier and perhaps less transparent. Lenders may or may not be regulated as banks, adding another layer of potential complexity.

In addition, changes in corporate retirement plans and health insurance systems are shifting responsibility for planning for workers' long term financial security from businesses to the workers themselves. Even relatively well educated, relatively affluent households find themselves challenged by this shift and the need to take more responsibility for their financial future.

At the same time, immigration patterns in recent years have brought many people to the United States who have little familiarity with our financial system. In some cases, unfortunate experiences in their home countries have caused them to distrust and avoid mainstream financial institutions. Not only are those who lack financial literacy skills more likely to make mistakes in such key financial decisions as purchasing a home or automobile, financing their education or retirement, or starting a business; but they also run the risk of exploitation.

As we think about how best to meet the challenges of improving economic and financial education, I see five lessons that can be drawn from the Federal Reserve's experience.

Lesson Number One: *Start at the top!*

Without support from people at the top, even the best of intentions will not translate into concrete actions. Addressing the need for economic and financial literacy takes resources, so you need the commitment of key decision-makers within the central bank. Moreover, if these programs are to be successful within schools and communities, you need support at the top there as well.

Both Chairman Bernanke and former Chairman Greenspan set the tone in making economic and financial education a high priority. Chairman Greenspan spoke frequently on the topic. He participated in a System-wide public service campaign to highlight the importance of financial literacy; the campaign included radio and television announcements and a toll-free number. He, along with several Reserve Bank Presidents including me, served as volunteer teachers to 7th graders in order to publicize the importance of saving and financial planning.

Chairman Bernanke is just as committed to this issue, speaking quite often on it. Just this month, when he was honored in his small home town in South Carolina, he reminded us that what underlies all the economic data are millions of citizens "working hard, trying to better themselves economically, struggling to manage their family finances, and worrying about the price of gas and college tuition." Economies are made up of individuals, and the better informed and educated their economic decisions, the more likely the economy's prosperity.

In the twelve Reserve Banks that are the regional arms of the Federal Reserve System, the Presidents actively reinforce this message. They all devote significant resources to economic education and financial literacy. Across the Banks, more than 75 full-time staff members work to deliver a wide variety of services and products related to economics and personal finance. And we all work hard to engage school commissioners, union heads, and administrators to ensure our services and products meet their needs. Their top down support within their own organizations helps to make the work Reserve Banks do effective.

Lesson Number Two: *Engage a wide array of audiences.*

For a long time, people in economics talked mainly to one another and then wondered why the public wasn't more interested in equations and Greek letters.

We have learned to broaden our outlook. Experience has taught us the importance of engaging a wider public by targeting our materials and media to various (and more diverse) audiences.

Anyone who wants to see just how far we have come, need only look at the Federal Reserve's economic education web site -- aptly named www.*federalreserveeducation.org*. The site offers easy access to educational resources from all the Banks and the Board of Governors -- resources that include a simple introduction to the Fed, an FOMC simulation, a Federal Reserve Kids Page, an online currency exhibit, a unit on building wealth, and much, much more. All of it is free of charge and very accessible by a variety of audiences.

By way of advertisement, last year, in Boston alone, we distributed nearly 100,000 free copies of publications ranging from comic books on banking basics to electronic media dealing with identify theft, to more serious studies on monetary policy issues. We also opened our doors to upwards of 12,000 local students and teachers, who participated in educational programs intended to broaden their understanding of the Federal Reserve, monetary policy, the global economy, economic growth, and personal finance. We held conferences on matters of regional public policy, and major economic significance. And more than 540,000 visits have been made to our public website. So our audience spans the range from grade schoolers to senior citizens, from the naïve to the sophisticated, and we try to engage them all.

Lesson Number Three: *Collaborate as much as possible.*

Experience has taught us that we, as central bankers, cannot possibly hope to turn every citizen into a trained economist or a financial wizard; nor should that be our aim. Our most useful contribution to economic and personal finance education may lie in giving a boost to, or adding value to, the efforts of other organizations. This can take the form of creating high-quality educational resources, enlisting our economists to assist in educational efforts, or even something as simple as opening our doors for meetings and conferences.

One of the most effective tools we have as a central bank is our power to convene, a power that's grounded in our reputation for fairness, integrity and credibility. People respect us and trust us -- even if they do not always like us or trust one another. They know that when we bring them together, they can expect a fair and honest exchange of ideas and opinions.

I have seen this firsthand when consumer advocates and representatives from the financial services industry have come together at our Bank -- in the same room! -- for a (mostly) non-confrontational exchange of views on issues of mutual concern. And I have seen it in meetings around our District as we sometimes bring together people on both sides of a community development issue, and it is clear they haven't had much recent interaction.

The Federal Reserve System collaborates with a number of organizations to deliver economic education and financial literacy programs. Some of these organizations are national in scope and some are local and some are in-between. In Boston, for example, we work with an organization called Citizens Schools, which provides after-school educational experiences in the professions to high school students. Most recently, we have collaborated with Citizens Schools in a program that provides practical guidance about planning for college or university expenses, while highlighting the importance of financial planning more generally. While Citizens Schools started in Boston, it is expanding into other parts of the country and we hope that our college program will be part of its curriculum as it does.

Another example: The Federal Reserve Bank of Chicago has had considerable success highlighting the importance of financial literacy in its District with a “Money Smart Week.” The Bank and almost 200 local partners, including Chicago’s major newspapers, offer about 300 financial literacy programs during the week. This is an exciting collaboration and I know other Reserve Banks are interested in using this model.

Lesson Number Four: *Make it teacher--friendly.*

There are many demands on a teacher's time, and most teachers in the United States have little background in economics. Taken together, these two factors can prevent even the most motivated teacher from tackling economic and financial education.

With that in mind, we in the Reserve Banks strive for an educational approach that offers teachers a maximum amount of flexibility. Most of our materials are designed so that educators can easily plug them into the existing school curriculum. We also try to structure the materials so teachers can use as much or as little of the content as they see fit.

We endeavor to develop programs that allow students to work on their own. One of our most popular programs at the Federal Reserve Bank of Boston is an interactive quiz on our public web site that uses professional sports, baseball in particular, to teach economic principles. The site, called “Peanuts and Crackerjacks” gets tens of thousands of website hits a year. I have been told it is the second most frequently visited section of the Bank’s website, surpassed only by the section on employment opportunities at the Bank. The success of this program has led us to develop another interactive game that will use the music industry to teach how markets work. This will also allow us to reach more varied audiences, through different styles of music. But both programs are fun and easy to use, as well as informative.

We are also mindful of the fact that teachers -- like most of us -- tend to shy away from things that are difficult to use, so we make a concerted effort to offer them support in using our resources. This summer, for example, the Reserve Banks in Boston, New York, and Dallas jointly hosted a teacher workshop on globalization. Research economists made presentations and answered questions on topics such as the emergence of China as an economic powerhouse and the effects of migration on labor markets. Judging by the evaluations we received, it was a huge success.

Of course, when the workshop ended some of the teachers still had reservations about our transition to a global economy. But one thing seemed certain: They were now less likely to look for simple solutions or overly-simple explanations.

Lesson Number Five: *Make it fun!*

Maybe you're a true believer, convinced that kids need to know more about economics. If that is the case, then go ahead. Put your convictions to the test! Walk into a classroom and start telling the "leaders of tomorrow" why studying economics will make them healthy, wealthy, and wise. Then launch into a discussion of basic economic principles. And, just for good measure, be sure to work in that tired old story about a factory that produces “widgets.” If you are lucky, no one will fall asleep and you might walk out of the room with your dignity intact.

This is not to say that we should give up on teaching economics to anyone under the age of 18. When we manage to spark their interest, young people often respond with enthusiasm and an intuitive grasp of economic reasoning. The challenge, of course, is to spark their interest. Sometimes we can do it with packaging. At the Federal Reserve, we have come to recognize the importance of making our publications and web-based resources informative and appealing.

But we have also found that adding an element of *fun* is crucial to success. There is absolutely no reason why economics has to be "the dismal science."

The System has experienced great success with student competitions that give participants an opportunity to sharpen their knowledge and showcase what they have learned in the areas of consumer awareness, personal finance, economic literacy -- even monetary policy! As one example, we sponsor two, so-called Fed Challenges, in which teams of high school and college students compete with each other in mock Open Market Committee meetings. Believe me, the expertise of the winning teams is astounding to those of us who judge the competitions locally and nationally.

In Boston, our permanent educational exhibit, *The New England Economic Adventure*, has shown us the benefits of adding an element of hands-on fun to an economic lesson. Since its opening in 2003, thousands of students and their teachers have visited the Adventure, and their reaction has been so overwhelmingly positive that I would like to take a few of my final minutes to share our experience with you.

The Adventure uses interactive investment games, exhibits, artifacts, and activities to help students understand how 200 years of economic change and technological innovation have affected our everyday lives. And although the focus is on the stories of New England's economy, the Adventure's message has broader applications.

One of its main themes is that economic growth and increased productivity have had a major impact on our material standard of living. To emphasize this point, we created a display of artifacts from three different time periods -- 1810, 1890, and 1960 -- and it has served as an effective catalyst for discussions of economic issues. This display is a perfect cure for nostalgia. One look at the chamber pot from 1810 is enough to convince most people that the good old days might not have been as good as we sometimes like to think. And the mere fact that there are no cell phones, iPods, or internet connections in the 1960 display instantly persuades our student visitors that life is better than it used to be.

To our surprise, however, their teachers are sometimes more ambivalent on that point. They agree that our material standard of living is higher and our level of physical comfort is greater, but they sometimes wonder if our lives really are richer or more fulfilling than those of our parents and grandparents. They talk to us about their concerns over the hectic pace of modern life, stress in the workplace, increased pressures on family life, and a lower level of community involvement.

While these conversations challenge the message our exhibit conveys, they also showcase economic education at its best, because when all is said and done, our aim is not to tell people what to think but, rather, to offer them a basis for making their own assessments. And if we do our job effectively, they will be able to use economics as a framework to assess the questions and quandaries of everyday life. We hope that the thousands who visit the Adventure each year come away with an enhanced appreciation of the role that their own financial habits can play both in their personal future, and the health of the overall economy.

Which brings me to my final point.

The modern world is a complicated place. We face increasingly complex economic and financial choices that require a greater level of sophistication on the part of our citizens. A basic grasp of economics and personal finance will not only improve their ability to navigate a changing job market, or to build wealth for their future. It will also help them to sensibly engage -- as voters, taxpayers, or consumers -- the big issues of our time, including those involved in monetary policy making. This, in sum, is why central banks should be concerned about and involved in economic and financial literacy.

Needless to say, we face a formidable challenge in raising the overall level of economic and financial literacy in the United States and in your countries. In each case it will require the support and resources of those at the top; creativity in engaging a wide array of audiences; collaboration among providers; reaching out to teachers; and most of all a commitment to making all this as much fun as possible. Difficult, perhaps, but as I look out at all the people gathered in this room, I see tremendous reason for optimism.

Thank you

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