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The Long-term View of Economic Education

Bob Parry, the president of the San Francisco Fed, spoke at last year's meeting and discussed some of the reasons he saw for supporting economic education. His main point was that econ ed is important because it develops better consumers, wiser and more committed workers, and better, more analytical citizens and policymakers.

I'd like to add a few words about why economic education is important, especially in these tumultuous days of economic restructuring. I know you know this, and please forgive me for preaching to the choir. But I think econ ed is so important the message bears repeating.

Economic education provides a framework for intelligent decision making. It gives students—our future voters—the tools to assess alternatives and decide on courses of action. A very important function. But more than that, you play a central role in helping students understand how our economy works and how our markets function. You show how things fit together. Econ ed works to demystify events. And to a large extent, it does this by developing a long-term perspective.

We tend to be caught up in short-term issues — the latest uptick or downtick in the numbers. Look at the headlines this week. The CPI numbers for August came out. So did the industrial production and capacity utilization numbers for August, and the business inventory and sales numbers for July. I'm asked about these numbers all the time. They're important, of course, but people try to read too much into them. They're just one piece of the puzzle.

People who understand how the economy works, those who've gone through some of your classes and workshops, understand that we need to look at the bigger picture — how the pieces fit together. We need a longer term view to understand the economy. You may have noticed that Chairman Greenspan has recently discussed how the economy is changing. Are we were entering a new era, or just experi-

encing a short-term anomaly? The answer, of course, is we don't know . . . yet. And we probably won't know for years — until we get more pieces to the puzzle. Of course, the Fed has to study short-term changes. The long-run, after all, is made up of a series of short-runs. But what's most important, for policymakers and citizens alike, is an understanding of how the economy works...an understanding that enables people to see the advantages of taking the long view. That's why economic education plays such an important role.

Midwest Economy

I'd like to take a few minutes to give you an example of what I mean about taking a long-term view to understand what's happening.

The Chicago Fed recently finished a study to help us understand how the economy is changing—in particular how the Midwest economy is being affected by ongoing restructuring. The study, called the Midwest Assessment, focused on the states of our Seventh Federal Reserve District, made up of Illinois, Iowa, Indiana, Michigan, and Wisconsin.

My focus here is on the Midwest. But if you're from another part of the country, I think you'll still find quite a hit in the Assessment that is relevant to your regions too.

The goal of the study was to better understand the region's future prospects by studying its past...specifically the Midwest's dramatic comeback since the early 1980s. We sponsored a series of workshops featuring research from leading experts. More than 200 participants were involved. An advisory group for the project included the governors from our five Midwestern states, six university presidents, and representatives from academia, business, labor, and not-for-profit organizations.

We looked at six different aspects of our regional economy: the rural economy; tax and regulatory policy; the performance of metropolitan areas; changes in the manufacturing sector; and the two I want to focus on today — the global economy, and education and training.

It's easy to forget now, but it wasn't that long ago that the Midwest economy lay in shambles — at the bottom of the steepest recession since the Great Depression. One in five manufacturing jobs in the region disappeared from 1979 to 1982. The agricultural sector was in a deep slump. Unemployment was 3 percentage points above the nation. Many of the experts thought that progress had passed us by...that our economic base was declining...and that the future here was bleak.

That may have seemed obvious 15 or 20 years ago — when oil prices were doubling...family farms were being foreclosed...imports were stealing Detroit's market...and people were leaving the Midwest for places like Houston and Phoenix.

But the reports of the Midwest's demise, like the reports of Mark Twain's death, were grossly exaggerated. How did we turn it around? Was it because of external factors that the region couldn't control, like a stronger dollar? Or was it due to internal factors, such as productivity improvements? In other words, were we lucky...or were we good?

Well, luck did play a role. The Midwest was helped by developments outside the region. Like lower energy costs. And growth in exports, especially capital goods and agricultural commodities.

But, we weren't just lucky. We helped ourselves. A critical factor in the Midwest's success was its willingness to re-invent itself. Midwest businesses reduced costs, created new product lines, and made remarkable productivity enhancements. The Midwest renewal was already underway even during the dark years of the 1980s.

The source of the recovery? Our old mainstays—basic manufacturing and agriculture. These economic sectors led us down into the valley...and they are leading us up the hill. We haven't changed what we're doing. But we've changed how we're doing it. We're operating much more efficiently...at a world class standard.

The Midwest is still heavily dependent on manufacturing and agriculture, despite all the changes to its economy. The region is more concentrated in these sectors than the rest of the nation. The Midwest's share of personal income derived from manufacturing jobs was 27 percent in 1995. That's 46 percent above the national average. The Midwest's share of personal income derived from agriculture and related industries was 3.6 percent—about 12 percent above the national average.

The auto industry provides a good example of the region's manufacturing orientation. The auto industry is actually reconcentrating in the Midwest. The new geography of auto production looks a lot like the old geography of auto production. with a concentration of activity in our region. Back in 1979 we had 27 auto production plants in the Midwest. Nine of those plants closed. But 13 new plants opened. Today, the Midwest has 31 auto plants—more than it did before imports became a real factor.

Research by Chicago Fed economists highlights the competitiveness of the Midwest economy. According to common wisdom, the Midwest benefitted quite a bit from the declining dollar, which made its exports cheaper for overseas buyers. This is a logical conclusion if you look at the value of the dollar and the nation's major trading partners.

Our economists took a different approach—a regional approach—and looked at the value of the dollar and its effect on the Midwest's major trading partners. They found that the dollar did not decline in those countries. In other words, the Midwest did not have a built-in price advantage from the weaker dollar. The Midwest succeeded because of better products and prices, not just because of external factors such as the performance of the dollar.

So, we found that we can influence our fate — we can affect our destiny. The key question is what we should do to maintain the economic momentum. It's a question that policymakers in the Midwest and throughout the nation are struggling with.

Our study included a number of approaches, but I'd like to discuss two issues that are of particular interest to me. Both go beyond the Midwest. They go to the heart of how we can help keep our national economy strong, growing, and competitive. These issues, as I said, are the global economy, with a particular emphasis on the need for free trade, and the importance of education and training.

These issues are certainly not revolutionary. And they're certainly not surprising to a room full of economists. But I think it's worthwhile to highlight them before a group of economic educators because it's so important that the public understand them.

Global Economy and International Trade

First the global economy. And particularly the need to continue lowering trade barriers. I'm deeply interested in this issue and have extensive experience in trade negotiations — going back to my time as a trade representative. It's generally agreed among economists, and I expect many here agree, that expanded trade means new opportunities for exports, as well as lower prices and greater choices for consumers.

Of course, many say they favor free trade. But talk is cheap. And no one wants to be first. That's why trade negotiations tend to proceed at the pace and warmth of a glacier. I know—I've been involved in a number of them.

Yet we've made significant progress in reducing tariffs and non-tariff barriers. 130 countries participated in the Uruguay Round of the GATT negotiations. A technology agreement has been completed covering 90 percent of world trade and lowering tariffs on computer software, semi-conductors, and fax machines. A telecommunication agreement has been finished. And work proceeds on financial services.

The North American Free Trade Agreement, despite its critics, has been a step forward for Canada, Mexico, and the U.S. Now we need to take steps to extend NAFTA to other Latin American countries, with Chile most likely to be the next new member.

The United States has another major opportunity to increase trade and investment through APEC, the Asian Pacific Economic Conference, which encompasses all of the economic powers of the Pacific Rim. APEC's goal is free trade in the region by the year 2010 — from the U.S. to China and Japan, from Australia to Canada. Keep in mind that many developing countries in this area are among the fastest growing in the world. In fact, some estimate that the world market will grow as much as 40 percent faster than the U.S. market during the next few years. Despite some currency fluctuations, these fast-growing developing countries will be excellent markets for our products and services over the long-term.

Progress in APEC, NAFTA, and the Uruguay Round is encouraging. But even more is needed to bring the benefits of free trade to people all over the world. These efforts bring real benefits to the U.S. economy. Since 1987 about one-third of our economic growth has come from exports.

I having said that, let me add that some Americans will be challenged—even threatened—by global competition. And we have an obligation to help these people adjust to the new global economy. But we can't stop progress. We must continue moving forward aggressively in lowering trade barriers—the end result will be more choices and lower prices for more people.

Education and Training

The second issue I'd like to highlight this morning is the importance of education and training. Again, I feel confident that just about everyone in the room agrees that education is an essential element to competitiveness.

As you know, industries increasingly require strong minds rather than strong backs. Entry level jobs often require computational and even computer skills that weren't necessary 20 years ago. This is certainly true even on the factory floor. A 1994 survey by the U.S. Census Bureau found that the use of advanced manufacturing technology is widespread across plants and industries. For example, the survey found that 47 percent of large plants use computer network technology to communicate with suppliers and subcontractors. 87 percent use computer-aided design and engineering tools.

The increased importance of brain power can be seen in the marketplace. A recent college graduate in 1978 could expect to earn 38 percent more than a high school graduate. By 1994, that difference had increased to 73 percent. Unemployment rates tell a similar story. The unemployment rate for high school drop-outs was approximately 15 percent in 1995, as compared with 4 percent for college graduates.

I'm sure we'd all agree that education is important. The problem is how to improve it. We've seen a number of reform efforts throughout the nation. The Midwest has become somewhat of an incubator for such efforts. We're seeing experiments in school finance reform in Michigan, a voucher program in Milwaukee, and the state of Illinois shifting responsibility for the Chicago Public Schools from the school board to the mayor. These and other innovations are underway throughout the nation. But they remain small in proportion to the number of students.

I don't pretend to have all the answers regarding educational reform. But I think a fundamental issue is imposing market discipline on public schools by allowing consumers to choose among alternatives. This has been tried on a limited basis, but most of these experiments have involved choices among public institutions. Do we need competition from the private sector to bring about meaningful reform? And should that choice include the ability to use public money to attend private schools? I think we need to address those fundamental questions if we are to truly reform our schools.

The challenges don't end when a student graduates and gets a job, of course. Workforce training is another key area. We need programs that reflect the new realities of the labor market. Work place training has to match more closely the needs of employers. Workers need to receive certifiable skills that can be transferred from one employer to another. One example of such a program is the project by the Council of Great Lakes Governors and the National Tooling and Machining Association to develop Metalworking Skill Standards. This project is designed to identify those skills used by metalworking industries and train and certify workers. A program like this will serve both workers and firms who must recruit them.

Another tough question is how to train disadvantaged workers. So far, training such workers has been a lengthy and costly process. But there have been some success stories. One of the participants in our Midwest study described a relatively successful program in Chicago.

Work force programs usually emphasize a strong dose of training before the worker starts a job. This alternative program stresses putting welfare recipients from the Cabrini Green housing project into a job quickly, with minimal prior training. Workers may be offered support services such as child care, counseling, and more extensive training after starting to learn the discipline of a job. If they lose the job, they get help in finding another. It seems that the best training is to get on the job as quickly as possible, especially for people who are still learning the value of education and training.

Conclusion

To sum up, our Midwest study indicates the importance of a long-term focus. There's widespread, though not unanimous, agreement among economists on global trade and education and training. But economists don't determine public policy. That's why your work in economic education is so important. There's still a lot of confusion out there. Your work will help foster public understanding—the crucial first step in developing effective policy that doesn't lose sight of the long view. I'd suggest that global trade and education and training are two of the key issues for the future of our economy—two issues where we really need to work to increase public understanding and, in this way, foster effective policy.

I think Charles Scott, the editor of England's *Manchester Guardian* more than 50 years ago, put it pretty well when he described the attributes of a superior newspaper. He said the function of a good newspaper "is to see life steady and see it whole." In other words, to keep the day's events in proportion and understand the causes and consequences—the interconnections—when looking at the important issues of the day. Depending on your point of view, it's ironic that this maxim was directed at journalists. But it's good advice for journalists. And it's good advice for central bankers and other policymakers, too. In a sense, that thought captures the essence of your jobs—you play a key role in helping educators and students to see life steady and see it whole. So I thank you for your past efforts and encourage you to keep working to help us all keep our minds on that maxim.

Thank you.