

WISCONSIN COUNCIL FOR THE SOCIAL STUDIES

Appleton, Wisconsin
March 19, 1998

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I. Intro

- A. Thank you. Nice to speak to an academic group again.
- B. Despite Thomas Wolfe's assertion, I feel I've come home again.
 - 1. As Mark [Schug] said, I began my career teaching English and History in a public school. (Add any personal comments on teaching experience.)
 - 2. I also taught at the university level for a number of years, and just before coming to the Chicago Fed, taught at Northwestern University.
- C. In addition to my academic experience, I've held jobs in government and in the private sector. My experience as an educator and an employer has taught me a couple of things.
 - 1. It's reinforced my belief in the value of education and the need to develop staff members.
 - 2. And it's reinforced my belief that teaching is an especially rewarding—and difficult—job.
- E. At the Chicago Fed, we're proud of our involvement in education. As you might expect, our particular focus is economic education. We not only work with economics teachers, though.
 - 1. We have programs for a broad range of social studies teachers, helping them incorporate economic concepts into their teaching.

2. We've been associated with groups such as the Wisconsin Council for the Social Studies and the state councils on economic education for many years.
 3. And, in fact, Nancy Goodman, one of our senior vice presidents, is a director on the Wisconsin Council on Economic Education.
 4. In addition, we've had a full-time director of economic education since the 1970s. Our director is Tim Schilling, whom some of you know.
 5. Our econ ed program includes workshops, publications, a newsletter for teachers, a lobby exhibit, tours of our building, and a curriculum package on our assessment of the Midwest economy.
 6. I'll be discussing our Midwest Assessment today and you can pick up a copy of the curriculum packet at our publications display.
- F. As I said, I'd like to discuss the Midwest economy and the keys to the region's future success. I speak, of course, from the perspective of the Federal Reserve System and the Chicago Fed in particular.
- G. And if you will permit me some professorial comments, I want to begin with a few words about the Fed itself. Some of you may be familiar with Fed already, so I hope you'll bear with me for a couple minutes.

II. Federal Reserve System's Regional Structure

- A. The Fed's mission is to foster a safe and sound financial system and a healthy, growing economy:
1. We formulate monetary policy.
 2. We supervise and regulate banks.
 3. And we provide financial services to the U.S. Government and depository institutions.
- B. The Fed has a Board of Governors in Washington, D.C., which oversees the 12 regional Reserve Banks across the nation.
- C. The Chicago Fed serves a five-state region consisting of most of Indiana, Illinois, Michigan, and Wisconsin, and all of Iowa.
1. In addition to our head office in Chicago, we have offices in Detroit, Des Moines, Indianapolis, Peoria, and one in Milwaukee.
- D. This regional setup means we're decentralized.
1. That's unusual for a central bank—and a bit of an oxymoron — a decentralized central bank.

2. In fact, the design is a work of American genius back in 1913, balancing the public and the private, the central and the decentralized.
- E. Why should we care about the Fed's structure? It's important because it helps us develop effective, long-term monetary policy. It's a balance that still exists.
1. The Reserve Banks have a mix of public and private features.
 2. And the governing board in Washington consists of seven public officials appointed by the President and approved by the Senate.
- F. The Federal Open Market Committee, or FOMC, is the best example of the advantages of the Fed's regional structure. It performs the Fed's most important responsibility — formulating monetary policy.
1. The FOMC is made up of the seven members of the Board of Governors and five of the 12 Reserve Bank presidents, who vote on a rotating basis.
 2. I alternate as a voting member with the president of the Cleveland Fed. This year, I'm not a voting member. However, all of the presidents attend the meetings and take part in the discussions.
 3. At our next meeting on March 31, each of us will discuss economic conditions in our region and assess the national economy as well as give our views on monetary policy.
- G. In this way the System receives a constant flow of economic intelligence from the districts. Our perspective isn't limited to the Washington "beltway."
- H. The Fed's independence is another hallmark of its structure. One of Congress' goals was to insulate the central bank from day-to-day political pressures. Why?
1. It's generally acknowledged that it's difficult for an elected representative to resist the temptation to "gun" the economy.
 2. Stimulating the economy may be appropriate at times, of course. But it should be done in response to the business cycle — not the election cycle.
- I. The central issue is balancing short-term considerations against long-term gains.
1. To help the Fed focus on the long term, Congress provided fourteen-year terms for the Board of Governors.
 2. Additionally, the Federal Reserve doesn't depend on Congressional appropriations to meet its expenses.
 3. Our budget is reviewed by Congress, however, so we're still accountable.
 4. And the Fed System turns over more than 95 percent of its earnings to the U.S. Treasury — some \$20 billion last year.

- J. Our ability to fund our own operations is a public trust — it’s a responsibility we take very seriously. The Federal Reserve is insulated from short-term political pressures, but we answer to Congress and the American people.
- K. The Reserve Banks are an integral component of this system of checks and balances.
 - 1. Because I’m an employee of the Chicago Fed, a lot of people think I’m a government worker. Technically that’s not correct.
 - 2. The staff at the Reserve Banks are not subject to civil service.
- L. The Reserve Banks are similar to the private sector in other ways.
 - 1. As I mentioned, the Reserve Banks sell a variety of financial services in the marketplace.
 - 2. Each Reserve Bank and Branch also has a board of directors consisting of leading private citizens from the region.
- M. So the Fed’s regional, independent structure has two major advantages.
 - 1. First, it insulates us from narrow influences.
 - 2. And, second, it helps us obtain a broad range of information and ideas from all over the country.
 - 3. The Fed’s structure is vital for developing effective policy. It helps us maintain a delicate balance — to focus on policy, not politics.

III. Midwest Economy

- A. Now that you know, as your students might say, where I’m coming from, I’d like to discuss the Midwest economy.
- B. What’s the key to the future success of the Midwest and the state of Wisconsin? Well, the answer won’t surprise this audience—it’s education and training.
- C. The Chicago Fed came to this conclusion in our Midwest Assessment.
 - 1. Our study focused on the dramatic changes in the regional economy—changes that are driving the need for education and training.
 - 2. The goal was to better understand the region’s future prospects by studying its past...specifically the Midwest’s dramatic comeback since the early 1980s.
- D. You’ll recall that a number of years ago people talked about the Midwest “Rust Belt.”
 - 1. Many of the experts thought that progress had passed us by — that our economic base was declining — and that the future here was bleak.

2. 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.
- E. But the reports of the Midwest's demise, like the reports of Mark Twain's death, were grossly exaggerated.
1. Today, the Midwest unemployment rate is nearly a full percentage point below the nation. [Midwest 3.9 percent; U.S. 4.7 percent]
 2. And here in Wisconsin, it's even lower – 3.2 versus 4.7 percent.
 3. January marked the 125th straight month – more than ten years — that Wisconsin's unemployment was lower than the nation's.
- F. How did we turn it around?
1. Was it because of external factors that the region couldn't control, like the value of the dollar?
 2. Or was it because of internal factors, such as productivity improvements?
 3. In other words, were we lucky — or were we good?
- G. Well, luck did play a role. The Midwest was helped by developments outside the region.
1. Like lower energy costs.
 2. And growth in exports, especially capital goods and agricultural commodities – two things Wisconsin does well.
- H. But, we weren't just lucky. We helped ourselves. A critical factor in the Midwest's success was its willingness to re-invent itself.
1. Midwest businesses reduced costs, created new product lines, and made remarkable productivity enhancements.
 2. The Midwest renewal was already underway even during the dark years of the 1980s.
- I. The source of the recovery? Our old mainstays—basic manufacturing and agriculture.
1. These economic sectors led us down into the valley—and they are leading us up the hill.
 2. 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.
- J. The Midwest is still heavily dependent on manufacturing and agriculture, despite all the changes to its economy.
1. The region is more concentrated in these sectors than the rest of the nation.

2. The Midwest's share of earnings derived from manufacturing jobs, for example, was 27 percent in 1995.
 3. In Wisconsin, it's even higher at 29 percent. This ranks Wisconsin as the state with the third highest percentage of earnings derived from manufacturing in the U.S.
 4. In fact, since the recession of the early '90s, the growth in Wisconsin's manufacturing sector has been very strong, with manufacturing employment increasing by approximately 11 percent.
- K. The auto industry provides a good example of the region's manufacturing orientation.
1. The auto industry is actually reconcentrating in the Midwest so that the new geography of auto production looks a lot like the old geography of auto production, with a concentration of activity in our region.
 2. Back in 1979 we had 27 auto production plants in the Midwest. Nine of those plants closed. But 13 new plants opened.
 3. Today, the Midwest has 31 auto plants—more than it did before imports became a real factor.
- L. Research by Chicago Fed economists highlights the competitiveness of the Midwest economy.
1. According to common wisdom, the Midwest benefited quite a bit from the declining dollar, which made its exports cheaper for overseas buyers.
 2. This is a logical conclusion if you look at the value of the dollar and the nation's major trading partners.
- M. 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.
1. 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.
 2. The Midwest succeeded because of better products and prices, not just because of external factors such as the performance of the dollar.
- N. Our success in the global marketplace is a good sign for the region's future.
1. Exports now account for a much larger share of the U.S. economy—about 13 percent as compared to only 8 percent in 1987.
 2. In the last few years, exports from the Midwest have grown even faster than for the nation.
 3. That reflects the fact that we make products that other countries want — things like farm machinery, construction equipment, and machine tools.
- O. So the region has made a remarkable comeback. But we're still facing significant challenges,

although they're much different than they were in the early 1980s. Let's go back to 1987.

1. Beginning in that year, employment growth in the Midwest outpaced the nation for seven years, largely due to our rejuvenated manufacturing sector.
 2. That was significant because job growth in the Midwest had been slower than the nation for several decades.
 3. But by 1994 national job growth had caught up to the Midwest's.
 4. And by the end of last year, annual job growth in the Midwest was only 1.7 percent, compared with 2.3 percent for the nation.
 5. Job growth in Wisconsin was 2 percent, better than the Midwest, but still below the nation.
- P. Why has the Midwest's job growth lagged the nation? Is it because of deteriorating economic conditions? Or a limited supply of workers?
1. Chicago Fed economists looked at this question and found that demand for workers remains strong, but that available supplies are becoming limited.
 2. In short, we found there's a gap between the number of workers the region's employers want to hire and the number they will, in all probability, be able to hire.
- Q. Right now, the Midwest not only enjoys low unemployment rates, but our adult population could be reaching the limits of its work force participation.
1. Here in Wisconsin, 72.0 percent of the population is employed. That's the highest percentage of any state and almost nine points higher than the national average of 63.8 percent [for 1997].
 2. Our region isn't just running out of workers, we could be running out of potential workers.
- R. Now, that's surely a challenge that everyone in Wisconsin would prefer to the double-digit unemployment of the early 1980's. Nonetheless, it's a challenge that must be met if we are to continue to grow and prosper.

IV. Education and Training

- A. So what is the key to maintaining the momentum in the Midwest revival and ensuring strong economic growth in the years to come?
- B. Well, we found a number of keys. But essentially it is productivity and work skills that will be critical for our future success.
1. We found that workers must get the education and training they need to keep their skills current so that they can continue to be highly productive.

2. That's what will distinguish the Midwest from other regions of the US.
- C. As you know, industries increasingly require strong minds rather than strong backs.
1. 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.
 2. A 1994 survey by the U.S. Census Bureau found that the use of advanced manufacturing technology is widespread across plants and industries.
 3. For example, 47 percent of large plants use computer network technology to communicate with suppliers and subcontractors. 87 percent use computer-aided design and engineering tools.
- D. The increased importance of brainpower can be seen in the marketplace.
1. A worker with a bachelor's degree in 1978 could expect to earn 38 percent more than a high school graduate.
 2. By 1995, that difference had increased to 73 percent.
- E. Unemployment rates tell a similar story. The unemployment rate for high school dropouts was approximately 14 percent [13.7%] in 1996, as compared with 2.4 percent for college graduates.
- F. Our constantly changing economy complicates the task of educating students. Even the old truisms are falling by the wayside.
1. For example, factory jobs with good pay are a thing of the past, right? Not necessarily.
 2. One participant in our study pointed out that the U.S. may be facing a shortage of trained workers in technical trades.
 3. He notes that the Big Three auto producers are expected to lose some 200,000 workers to attrition and retirement during the next five years.
 4. So there may be more of these types of jobs than we expected. Of course, educators will still need to give students the ability to meet the new skill demands of these blue-collar jobs.
- G. The challenges don't end when a student graduates and gets a job. Workforce training is another key area.
1. We need programs that reflect the new realities of the labor market.
 2. Work place training has to match more closely the needs of employers.
 3. Workers need to receive certifiable skills that can be transferred from one employer to another. As we all know, the old model of a lifetime job in one company is a thing of the past.

- H. Another tough question is how to train disadvantaged workers.
 - 1. So far, training such workers has been a lengthy and costly process. But there have been some success stories.
 - 2. One of the participants in our Midwest study described a relatively successful program in Chicago.
- I. Work force programs usually emphasize a strong dose of training before the worker starts a job.
 - 1. This alternative program stresses putting welfare recipients from the Cabrini Green housing project into a job quickly, with minimal prior training.
 - 2. Workers may be offered support services such as childcare, counseling, and more extensive training after starting to learn the discipline of a job.
 - 3. If they lose the job, they get help in finding another.
 - 4. 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.

V. Conclusion

- A. To sum up, our assessment of the Midwest economy reinforces something I'm sure you already believe—productivity and work skills are critical for the Midwest's future success.
- B. The Midwest's future will not be determined by forces beyond our control. We can shape our own destiny.
 - 1. So it's absolutely essential that workers receive the education and training they need in our fast changing economy.
 - 2. The issue isn't simply one of fairness; it shapes our nation's ability to compete successfully in a global economy.
- C. In conclusion, I'd like to congratulate all of you for your dedication to quality education.
 - 1. It's people like you who will make a difference.
 - 2. It's people like you who will ensure that students have the skills to participate fully in America's economic growth.
 - 3. And it's people like you who make me confident that we'll continue to overcome our challenges and prosper for many years to come.
- D. Thank you.