Knowledge Is Power: The Importance of Economic Education

Presented by Anthony M. Santomero, President
Federal Reserve Bank of Philadelphia

Pennsylvania Economic Association Annual Conference
Hosted by West Chester University
May 30, 2003

Introduction

Economic education is vital to the future health of our nation's economy. It gives our students the building blocks for a successful financial future. It empowers consumers with knowledge and tools to improve their economic well being. It is the best investment we can make to strengthen our nation's economy.

As economists, we recognize that the development of basic economic and financial knowledge is an important goal for a democratic society that relies heavily on informed citizens and personal economic decision-making. When households are capable of building wealth, they are also capable of building more economically stable neighborhoods and communities.

Today, I would like to share with you my perspective on the importance of economic and financial education and give you some examples of what we're doing at the Philadelphia Fed to further this important cause.

Knowledge Is Power

In today's ever-changing and increasingly competitive financial marketplace, knowledge is power. We are living in an age in which the communications revolution has inundated consumers with more information than ever before, even as the financial marketplace has become more complex. But simply having more information does not necessarily mean people have more knowledge.

As we all know, the business of managing our money in this environment has become increasingly complicated. Technological advances continue to expand the range of financial services available to consumers. While choice and flexibility are certainly beneficial to the consumer, they come with increased risks --- especially among consumers who lack the knowledge and resources to discern their choices.

American consumers must not only have access to information, they must be able to both *understand* and *use* it. This is our challenge. It is difficult enough for the average American to understand and choose wisely among the complex financial products and services now available. Think what an exceptionally daunting challenge it is for those with limited financial experience or education to make such decisions. Therefore, educating consumers on the basics of economics is an issue of critical importance.

Economic Education and the Fed

The Federal Reserve has been involved in economic education initiatives for some time. We consider them integral to our mission. As you know, the Fed serves a three-fold function in our economy: it conducts monetary policy, supervises and regulates banks and financial institutions, and maintains an effective payments system. Our economic education efforts are important to, and intertwined with, all three functions.

First, educating the nation's populace about economic issues is an integral part of our role in monetary policy. Economic education fosters a better understanding of how our democracy works and how policymakers have an impact on the economy. This basic knowledge of economics helps consumers better understand Federal Reserve policy actions and how changes in policy ultimately impact their own lives.

Second, as regulators and supervisors of banks and other depository financial institutions, the Federal Reserve is responsible for promoting safety and soundness in the industry. In addition, Congress has given us the job of overseeing the industry's compliance with many consumer protection laws, including fair access to credit, and service to communities, including provisions of the Community Reinvestment Act. Given Congress's mandate to bank regulators to ensure fair and equitable treatment of consumers, we believe economic education is a logical extension of our regulatory duties.

Third, the Federal Reserve's duty to maintain an effective payments system is facilitated by knowledgeable consumers. Simply stated: If people are informed about available choices, they will be better able to make appropriate decisions about their payments. For instance, consumers must make decisions about when to pay by cash, check, credit card, or debit card. The options are increasing, and the choices have become more complicated.

For all these reasons, economic education is critical to the Federal Reserve's long-term objective of maximum sustainable economic growth. Educated consumers are the key to a well-functioning financial market, one that best serves the nation's economy. At the Federal Reserve Bank of Philadelphia, we consider educating consumers on the basics of economics to be a vital part of our business.

Effective economic education helps people develop the skills to meet their financial and personal objectives --- including savings, financial stability, home ownership, higher education, or retirement. Rather than being merely reactive in correcting abuses that occur in financial markets --- which we must --- it is better to be proactive in developing an educated consumer, knowledgeable enough to avoid being abused.

The Fed clearly recognizes the importance of education, but how best to achieve it is often situational. I believe the far-reaching nature of the problem requires an attack on two fronts: one as a long-term solution and one as a short-term response to observed problems in the market for financial services. Let me outline each part of this approach.

Economic Education - A Long-Term Solution

As a long-term solution to the gap in economic and financial knowledge, economic education programs should be aimed at school children, our most important audience. Broad-based economic education initiatives for school-age children will translate into a society of financially literate adults.

Yet, only 21 percent of students between the ages of 16 and 22 say they have had any exposure to personal finance in school. The current situation stems in part from the fact that economics and basic financial concepts are often not part of a school's curriculum. Another problem arises when these courses are badly taught and, as a result, not learned. Either way, the result is the same. Graduates enter the workforce without an understanding of how our economy -- or their finances -- work.

The National Council on Economic Education reported that in 2002, 48 states and the District of Columbia had economics standards in their schools. However, only 34 states require those standards to be implemented, and only 27 states require testing of students' knowledge of economics. It gets worse. Only 17 states require that an economics course even be offered in high school, and just 14 states require students to take such a course in order to graduate.

What is the situation closer to home? Of the three states that make up our District --- Pennsylvania, Delaware, and New Jersey -- none require students to take an economics course in high school. In fact, none require that high schools even offer an economics course. In Delaware, schools are required to implement the economics standards, and student achievement in economics is tested as one-quarter of the state's social studies test. That test is given at the beginning of 4^{th} grade, the beginning of 6^{th} grade, the end of 8^{th} grade, and the end of 11^{th} grade. The 11^{th} grade test plays a part in determining the type of high school diploma the student receives. In New Jersey and Pennsylvania, there are standards in place, but there is no required testing of student achievement in economics.

Going forward, we must all work to secure economics a place in school curricula, with substantial classroom time devoted to economic instruction.

This is an area where Federal Reserve financial education programs can help. To date, the Philadelphia Fed's greatest success has been in Delaware, where a financial literacy program introduced in one high school has now spread to seven other schools. Fortunately, we have built strong partnerships with the University of Delaware Center for Economic Education and Entrepreneurship, the Delaware Bankers Association, and the Consumer Credit Counseling Services of Maryland and Delaware. These partners have been instrumental in making this venture a success. We expect the course to be offered in roughly 20

Delaware high schools in 2003-2004. In addition, we are hoping to replicate our success in Pennsylvania and New Jersey. To that end, we are building relationships with state councils on economic education and with economic education centers at colleges and universities. We would like to find partners to pilot similar programs in these states.

Equally important are teacher training programs. Unfortunately, the overwhelming majority of high school teachers are ill-equipped to teach economics and personal finance. Few majored in these fields when they attended college. This is an area where we can have an impact by following a train-the-teacher model. As a result, the Philadelphia Fed provides significant training and resources to teachers so they can get the right message to students.

We seek ways to excite educators about economic education in the K-12 classroom by showing those educators how economics can be infused into existing language arts, mathematics, and social studies curricula.

The increased emphasis that the No Child Left Behind Act places on mathematics and reading standards increases the need to show teachers ways to infuse economics into these assessed disciplines. Our train-the-teacher approach is grounded in the premise that well-trained teachers will be able to educate large numbers of students about economics and its role in our daily lives.

In Pennsylvania, our key partnership with ECONOMICSPennsylvania and its associated centers for economic education make possible the implementation of ongoing programs to train teachers to teach economics in the K-12 classroom.

We are having some success. Last January, the Philadelphia Fed offered a course for New Jersey teachers on personal financial education. This summer, we'll participate with Millersville University, the University of Delaware, and Kean University in a seven-day graduate course aimed at showing teachers effective strategies for teaching money and banking in K-12 classrooms.

Other plans include holding workshops and conferences. In fact, we have already hosted several events. Last summer, our Community Affairs Department presented day-long programs to students in the Pennsylvania Governor's School for Entrepreneurship and to teachers as part of the Summer Institute of the South Jersey Chamber of Commerce. In October, teachers from Philadelphia and its suburbs came to the Bank for an economics seminar. We are also starting to host sessions to educate interested people on how to become economic education trainers.

Across the country, the Federal Reserve System is playing an important role in educating students and teachers about the functions and characteristics of money. We're emphasizing the role of the Federal Reserve in ensuring price stability and sustainable economic growth, the important function that bank supervision and regulation play in keeping the economy strong, and the importance of a strong, viable payments system. Moreover, each Federal Reserve Bank has its own economic education specialists who provide tools and resources to educators and help develop programs to teach economic education to both teachers and students.

Economic Education as a Response to Problems - A Reactive Agenda

Reaching people before they make financial mistakes is critical, and the preventive economic and financial education programs I just mentioned serve this purpose well. However, we also advocate curative programs for people already in dire financial straits.

These initiatives typically target consumers without banking relationships or with few financial assets. They provide ways to reach out to consumers, providing them with the tools to build a better financial future.

I believe curative programs are our best defense against financial abuse, fraud, and illegality. To effectively combat these issues, the best remedy is to target those market areas that are most vulnerable --- such as the elderly or low-income and minority communities. There are many such communities in our Federal Reserve District.

But in the process of addressing predatory lending practices, we must be careful to effectively differentiate between standard, risk-based lending and exploitative practices. This is an important distinction. In fact, it is essential for regulators to counter predatory lending without impeding the needed flow of capital to all segments of our society.

But predatory lending activities carry disproportionately high interest rates, and/or onerous terms, not justified by the borrower's higher risk. They are imposed by lenders who are willing to exploit the borrower's lack of financial knowledge, market access, or economic resources.

The best defense against these harmful practices is education. Consumers who are financially knowledgeable are more likely to be financially responsible. Unfortunately, many people learn only through experience. Once burned, twice informed. While learning and working through their own financial difficulties, consumers can effect change in their overall behavior.

Successful programs combine counseling and education, to empower consumers in controlling their financial future. Disclosures can be useful, but only if consumers read and understand them; therefore, education is the core of the solution. Here, the Fed provides literature and recommended curricula, for both educators and consumers. Over the longer-term, we can create a knowledgeable consumer, able to understand and use the basics of money management.

Targeted campaigns built on motivation and coaching can also encourage consumers to build wealth for their future through sustained savings plans and informed investment decisions. The Philadelphia Fed is working with partners such as Philadelphia Saves, a campaign designed to help create wealth through savings, to change attitudes about money and saving.

Programs such as these are part of a wide effort to promote economic and financial education. Currently, efforts are booming in this area. The FDIC recently announced a national pilot program for financial education. In addition, the Treasury is establishing an Office of Financial Education, which will oversee outreach efforts and develop new policies regarding financial education.

Across the nation, Federal Reserve Banks are partnering with a broad constituency of community-based organizations and associations to draw attention to the need for economic and financial education, and the programs designed to support it. We are also engaged in a national effort to promote education through our new campaign "There's a Lot to Learn about Money." The strength of the campaign lies in several key elements. A public service announcement featuring Chairman Greenspan is currently running which extols the virtues of economic and financial education.

This is an aggressive program of media outreach to be sure our message is heard. We have launched a national website www.FederalReserveEducation.org , which features Internet links to instructional materials and tools to increase understanding of economics and financial education. The site includes such useful resources as brochures, newsletters, curricula, references, and research.

On a local level, the Philadelphia Fed continues to develop and promote its own programs to encourage economic education. We have forged strong partnerships with organizations like the Greater Philadelphia Urban Affairs Coalition; Isles, a New Jersey based community organization; as well as the state councils and centers for economic education. These partnerships help us reach out to communities and educators. With these partners, we've developed a number of programs aimed at increasing economic and financial education, including conferences, training seminars, and economics courses for educators.

We have fostered greater economic education by providing materials and curricula and by supporting local efforts through our Community Affairs Department. As I mentioned, teaching the teacher is of prime importance. We have increased that commitment, bringing more resources to this important part of our agenda. We help educators identify appropriate programs and curricula, and we create evaluation tools to monitor progress.

We also have an aggressive and ongoing research agenda. We target training to various constituencies, such as children, adults, low-income people and so on, and help economic education providers assess audience demographics and needs. In this way, we hope to provide substance to the economic education research agenda by measuring what participants have learned and determining how programs meet needs over the long term.

Finally, a new project will put a unique spin on the Philadelphia Fed's education efforts. We are opening a historical financial exhibit called *Money in Motion*. It employs the latest presentation technology and interactive displays to entertain visitors and simultaneously teach them the unique role of the Federal Reserve System. As the home of the first bank, it is fitting that Philadelphia share the story of our nation's financial history. I invite you all to visit us when the exhibit opens to the public on July 5th and test your knowledge of money and banking. Plan to visit us this summer to see this permanent exhibit, and then come back during the year with your colleagues or students.

Conclusion

Economic education programs developed and promoted by the Philadelphia Federal Reserve Bank help consumers make better financial decisions. In classrooms around our District, we help young people understand the workings of the economy and the financial system in which they are just beginning to participate. In low- and moderate-income communities --- often targets of unscrupulous business practices --- we help people understand risks and evaluate alternatives.

As I mentioned earlier, knowledge is power. Economic education generates knowledge. It gives people the tools to understand economic and financial issues and to interpret events that will affect their financial futures.

In short, informed, well-educated consumers make better decisions, increasing their economic security and well being. These consumers are better able to contribute to vital, thriving communities, further fostering economic development. Improved economic education will result in more productive, fulfilling lives for individuals and families-and, in turn, more vibrant, economically stable neighborhoods and communities.

Most important, economic education is critical to building bridges between educators, businesses, and consumers. It is these bridges that will prepare our society to meet the challenges of an increasingly knowledge-based economy. As we work to increase familiarity with new technological and financial tools, we give people the resources necessary to secure individual economic success. Done right, economic education can have large-scale results - results that are sweeping, significant, and supportive of a higher standard of living for all Americans.