What Is the Fed Doing in the Education Business?

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You may be wondering about my title, for you probably think of the Fed as being in the monetary policy business and not the economic education business. I want to convince you that to do a good job in the monetary policy business, we have to also do a good job in the econ ed business. I was eager to accept this speaking invitation, because it gives me a chance to discuss a topic I've thought a lot about. Economic education is far more important for monetary policy than most people realize.

Now, I know about you that most of you teach college-level economics or finance. And you know about me that I've taught economics for most of my professional life, starting in 1963. What you don't know about me—or don't know yet—is that I have a real passion about economic education from a policymaker's perspective. As far as I am concerned, economic education, broadly conceived, is absolutely central to the Fed's monetary policy responsibilities.

I'll start by explaining why economic education is so important to me as a Fed policymaker, why I consider it far more than just a nice little gesture of community involvement. After I make this case, I'll outline some of the things we do, from programs for elementary and secondary school teachers and students to programs for universities to public speaking generally to press contacts to congressional testimony. All of these efforts are designed in varying proportions to educate the public about what we do and to fulfill our responsibility to be accountable in a democratic society. I don't intend talking too long, however, because I'm looking forward to taking your questions, whether they're about economic education, the economy or the Fed.

Before I get further along, let me emphasize that the views I express here are my own. Within the Federal Reserve System, there are nuances of view on almost every subject. Thus, my remarks do not necessarily reflect official views of the Federal Reserve System.

WHY IS THE FED INVOLVED?

Let me introduce my topic this way: At each meeting of the Federal Open Market Committee (FOMC), which sets national monetary policy, the end result is a decision on the intended or target federal funds rate. This interest rate, as most of you know, is of little direct importance. The rate is for a one-day loan—an "overnight" loan in market jargon—between two banks. It is a matter of minor concern what rate one bank charges another. But changes in the fed funds rate can and do affect the 30-year mortgage rate, Treasury bond rates, the stock market and a host of other things we care a lot about, such as the rate of inflation of the general price level and the unemployment rate. How can an overnight interest rate have such effects? If you don't know—and a lot of people don't—and you're curious, you are a candidate for the Fed's econ ed efforts.

Let's dig a bit further into this line of argument by considering this proposition: If the FOMC's decision on the fed funds rate can affect the markets today, then an FOMC decision six months from now to change the rate will affect the markets at that time. And we know that expectations about market prices in the future will affect people's behavior today. QED: the effects of monetary policy decisions today on what people do, and therefore on the economy as a whole, will depend importantly on people's expectations about the future course of monetary policy.

For example, if you think the mortgage rate will be going down in the future, you may delay your house-buying plans. Clearly, both market professionals and citizens thinking about buying houses need to know a lot more than the Fed's latest decision on the fed funds rate. They need to know about the Fed's monetary policy *strategy*—the likely course of Fed action that will determine the fed funds rate in the future. If the Fed's strategy is misunderstood, either because of a low level of economic literacy or because the Fed has failed to convey its strategy clearly, then the markets are going to make mistakes and be surprised at Fed actions.

The economist views market mistakes as leading to unnecessary economic inefficiencies. The phrase "economic inefficiencies" has a nice professional ring to it, but to firms and individuals what it means is that somebody lost money from a bad decision. People sometimes get angry when they lose money unnecessarily. When such people believe that Fed mistakes are the root of the problem, they do what they ought to do in a democracy—they call members of Congress to complain and to demand action.

Of course, the Fed is not infallible, and it deserves to be held accountable for its decisions. If accountability is to be successful in yielding better policy, however, those who oversee what we do need to criticize us on the basis of a high degree of knowledge about monetary policy. Educational institutions at all levels bear the main responsibility for economic education, but I can tell you from long experience as an economics professor that most of my colleagues were interested in matters other than monetary policy. A significant number of the economists with monetary policy expertise are employed by the Federal Reserve System. We at the Fed have a lot to offer in the economics education business, because we have so many of these experts. If we opt out of the econ ed business, then markets will function less well than they might, citizens will more frequently make costly mistakes than they should, and monetary policy will be less satisfactory than it could be, both because of these mistakes and because political pressures may push policy off track.

We should not underestimate the task at hand. In a recent poll asking "What is the Federal Reserve?" some people answered that it was a branch of the military—like the Army Reserve. One respondent replied that "the Federal Reserve is a big tract of land set aside to protect exotic or unusual species." I'm embarrassed to say that these answers remind me of some things I've seen on final exams in my own courses. I don't think I need to multiply poll results to convince you that the United States has a serious economic literacy problem. You know that from talking with students, their parents, friends and relatives, and from reading newspapers and magazines. Taken society-wide, economic illiteracy results in uninformed opinions and harms our citizens' ability to evaluate economic choices and make wise decisions.

I'm going to talk briefly about four overlapping elements of the Fed's efforts in the economic education area: the Fed and the classroom, the Fed on the stump, the Fed and the press, and Fed reporting to the Congress. Then I'll circle back to my theme that the Fed must be in the education business if monetary policy is to work well.

THE FED AND THE CLASSROOM

The Fed produces a long list of educational resources, from web sites to conferences to competitions to publications. Some of our publications are specifically designed as course materials; others are more general, but may be useful in some classrooms. I brought along copies of two publications. One of them is "In Plain English: Making Sense of the Federal Reserve." The title is pretty much self-explanatory—it's a plain-talking explanation of who we are and what we do.

The other publication, the Catalog of Public Information Materials, has been recently updated.

It is available in both printed form and on the Internet. Its home site is at the New York Fed, but you can link to it from any Fed Bank's web site. The catalog is the granddaddy of all general information sources on the Fed, most of which are free. It's intended mainly for educators, and even tells you the intended audience for each item, from elementary students and teachers through college students and professors, plus the general public or business professionals.

All of the Federal Reserve Banks have economic education programs. And although we offer a lot of things in common, each Bank goes at it differently. There's a lot happening for educators at the St. Louis Fed, and since that's where I work, that's what I'll focus on.

When I say we've got a lot going on for educators, I'm not exaggerating. Although we often reach out directly to students, our primary focus has been on secondary and elementary teachers. We put a lot of effort here because economics at the university level is better established and less in need of our assistance. Dropping rocks into the secondary education pond, on the other hand, spreads ripples far and wide—it is a good way to get the best value for the money we spend. Reach one teacher with the right messages and materials, and over time you reach hundreds of students, and at an age when success really matters.

Don't get me wrong; we work with college educators also, and we're always looking for ways to add to those efforts. As you know, the St. Louis Fed has a branch here in Little Rock and also in Louisville and Memphis. Each year we hold half-day seminars in these cities for economics, business and finance professors. Fed economists give presentations on timely topics and discuss them with those attending. It's a valuable experience for us as well as for the professors. We also arrange special tours of the Bank for groups of college students and their instructors. A presentation by an economist is often a part of those programs.

I myself get into the act. As part of my efforts to speak on monetary policy and other topics, I've been to Saint Louis University and have other college appearances in the works. It always feels good to me to come back home to a university.

Then there is the Fed Challenge—some of you may be familiar with this competition for high school students. I think the Fed Challenge is the most exciting and innovative idea for teaching economics I've seen over my entire teaching career, and it is one of the St. Louis Fed's—and the Federal Reserve System's—most successful recent programs.

The Fed Challenge, in essence, is a mock Federal Open Market Committee presentation. Each student team in the competition presents a 15-minute analysis of the current economy. As with a real FOMC meeting, each team ends its meeting with a monetary policy decision. Following the presentation, "show-no-mercy" judges grill the team with 10 minutes of questions. At last year's finals competition in Washington, held in the Board room where I attend FOMC meetings about every six weeks, I served as a judge along with Governor Alice Rivlin, vice-chair of the Board of Governors, and Governor Edward Gramlich. There were six teams in the finals, one from each of the six Federal Reserve Districts sponsoring the Fed Challenge.

The Fed Challenge does several things for high school students and, I might add, their teachers. The competitive aspect is a wonderful motivating device. It is like a typical debate competition, except that preparation takes most of the school year. Students learn how to research a complex topic—monetary policy—and how to explain a position with clarity. They also learn how to handle intense questioning. Combining critical thinking skills with the need for succinct presentation as part of a team is a learning experience of the first order.

Student teams get to the finals in Washington after winning the competition in their own Fed district. The Fed Challenge began in 1995; the New York Fed saw the Challenge as a great device to bring real-world economics into the classroom. Since that time, other Reserve Banks have become involved with the competition. Last year 208 teams took on the Fed Challenge, and I'm pretty sure that more teams are preparing this year. In the Eighth District this year, we have a competition running in both the St. Louis and Memphis areas; the winners in these two areas will have a run-off competition in St. Louis to determine the team that will represent the District in the finals in early May.

I've added an appendix to the text of this speech, which will be available on the St. Louis Fed's web site in a few days, to provide further information on our efforts that are of direct value to educators.

THE FED ON THE STUMP

Every Fed bank president, every Fed governor and a significant number of other Fed employees, spend quite a bit of time on the road giving speeches. I view each of my speeches as half education of the audience and half education of me. I talk frequently about monetary policy and Fed decision processes. I work hard on my speeches because I believe that policy success depends importantly on the markets and the general public understanding what we are doing. My subheading here is "The Fed on the Stump" because I really do think of this aspect of my responsibility as that of campaigning for a sound monetary policy. In a democracy, the voters ultimately call the shots—I want the shots to be called from a sound knowledge of economics and the problems and uncertainties of making monetary policy decisions.

I said that half of what I get out of a speech is education of me. I am constantly searching for information on how the economy is doing, from the perspective of those in the audience. During the Q&A period, during lunch or dinner before or after a speech, during pick-up conversations in the hallway, I continually seek out information on the state of the economy and how people feel about it. I also try to gather information on misperceptions and misunderstandings about economics and the policy process that need to be addressed. These conversations help me to generate speech ideas for the future.

One thing we've been doing for some years now in the Eighth District is an evening program with bankers we call "District Dialogue." We travel around the District to all the major and not-so-major cities and towns, usually making two or three stops on any given road tour. Our format is a late afternoon meeting with local bankers, followed by a reception and dinner. In the meeting, three of us will make presentations on the state of the local economy, the national economic outlook and a particular topic of current interest, such as the Y2K issue. The combination of three short presentations and the Q&A takes 60 to 90 minutes or so. The next morning we'll have a breakfast meeting with local business and community leaders. Typically, I'll talk for about 20 minutes and then we'll have a conversation about community concerns, questions for me, and my questions for others.

Besides speeches like this one, and the District Dialogue, we have a number of advisory groups that meet in St. Louis. We have luncheons for industry groups, such as homebuilders, health care professionals and so forth. A feature of most of these meetings is a "go around" where we ask each person present to talk for a few minutes about the state of the economy as he or she sees it.

Finally, I've been making a point of visiting as many elected officials from states in the Eighth District as I can. These include members of Congress, mayors, state governors and others. Matching calendars makes for a slow process in setting up these meetings, but I think the effort is very worthwhile in establishing good communications and an understanding of what the Fed does.

THE FED AND THE PRESS

The press covers the Fed in considerable detail. Indeed, I was somewhat surprised to find national press representatives showing up at many of my speeches. Local press are also often present.

Whenever representatives of the press attend, I try to spend a considerable amount of time talking with them in small groups, or individually, before or after a speech. I am also interviewed in my office from time to time. I am more than willing to spend time with the press because what they report can make a real difference to the public's understanding of the Fed.

I believe that taking time with the press is in part an educational effort. Facts and Fed actions do not speak for themselves; they need to be explained and interpreted. I have a responsibility to explain and interpret as best I can. That is an educational function not just in the sense of disclosing my thinking but also in explaining the economics behind my thinking. Good reporting requires a thorough knowledge of the subject, and I think I can assist reporters by sharing my knowledge. In the end, of course, each reporter has to decide whether what I think I "know" is really true. Still, everyone would agree that no one can understand where I am coming from if I don't spend time talking about what I believe and why. I might also note that economists use lots of professional jargon; many of the words have somewhat different meanings in everyday English and that's an invitation to mixed-up reporting. Mixed-up reporting is not in anyone's interest, and so I work hard to be as clear as I can.

My experience with the press is almost uniformly positive. I say that not because I always get good coverage—I don't. But reporters do want to report accurately and do want to say something useful to their readers. If I give a speech and a reporter writes a garbled story, I deserve part of the blame for not being clear, or not spending enough time with the reporter to be sure that there are no misunderstandings. I don't mind being criticized for a position I've taken, but I do mind having that position misstated. I want always to sharpen the issues so that the general public has before it a clear statement about what is at stake.

FED REPORTING TO THE CONGRESS

Fed presidents rarely testify in congressional hearings, and I haven't since I came to St. Louis last March. However, governors, and especially the chairman, do testify frequently. The Congress has an important oversight responsibility for the Fed, just as it does for executive branch departments. The Federal Reserve Act is the basic law controlling the Fed; Congress can amend that act at any time. The Federal Reserve System has a responsibility to report to Congress about what we are doing and why, and to be responsive to questions from Congress.

I read most of the testimony presented by Fed governors, and I believe that the Fed does a fine job with its presentations. Moreover, I think the Fed has done a much better job in recent years than in the past. My knowledge of this area goes far back, as I have learned a lot over the years from reading Fed publications and testimony.

Fed congressional testimony is partly reporting to Congress and the public and partly education. The educational side of the endeavor should not be underestimated. An incident from my own experience testifying before the House Banking Committee many years ago, when I was at Brown University, illustrates my point. In the Q&A following my presentation, it became apparent that the House member questioning me was uninformed about how commercial bank reserve requirements work. This member, who sat on the Banking Committee, did not understand the mechanics at the level of a freshman economics text. No member of Congress can possibly be informed about every aspect of congressional responsibility, but each member and the member's staff should be well-informed about the business of oversight committees on which the member sits. In this incident many years ago, I did not have an opportunity to bring the member up to speed on reserve requirements, but I certainly seize such opportunities whenever I can.

FINAL THOUGHTS

The Fed is in the economic education business, then, to affect change, to raise the bar, so to speak, on the public's knowledge about money, banking and the Fed. We approach this task from many different directions. We provide publications for students and teachers, elementary through college, as well as for business and community groups. We host teacher conferences and workshops and collaborate with local universities to provide graduate courses for teachers. We work closely with not-for-profit and governmental organizations whose goal is to promote economic education. We frequently hit the road, making speeches and meeting with all sorts of groups to exchange ideas.

Historically, in the United States and around the world, central bankers have been a secretive lot. They were often arrogant about their knowledge and believed that the general public could not understand monetary policy. Policy decisions were kept confidential. The public was told that it simply had to trust central bankers, for they were the experts and would do the job that had to be done.

Central banking in the United States has always been more open than in most countries, reflecting the strong democratic traditions in this country. But it is certainly true that the Fed needed to become more open than it was in the past, as indeed it has. I am convinced that Fed openness is good for our democracy and good for our economy. It is an inescapable fact that Fed openness will not be helpful if recipients of the information do not understand enough economics to intelligently evaluate what we do.

So, economic education is not just a nice, feel-good activity designed to induce people to like us, but is instead an essential part of monetary policy. If we fail in our educational efforts, our policy road will be a lot tougher. Indeed, I am convinced that long-run economic performance generally, and monetary policy success specifically, depends critically on economic literacy.

Think back to some of the survey results I cited earlier in my remarks today—all of us have a big job ahead of us.

APPENDIX

In the Eighth Federal Reserve District, we sponsor numerous other economic education efforts aimed mainly at K-12 educators:

- We hold day-long teacher conferences in St. Louis and our Branch cities in both the spring and fall. Our economists give a series of presentations on a timely topic—an upcoming conference is on the "Asian Contagion" —and local econ ed professors conduct "application" breakout sessions, complete with classroom materials, to help teachers integrate the topic into their everyday activities.
- We provide assistance to national, state and local associations like the National Academy of Finance with finance career academies in some 300 schools across the country. That's true also for the National Council for Social Studies and state economic education councils and centers.
- We work with local school districts and state education departments on economic education programming and staff development. Next week, for example, one of our St. Louis Fed economists is doing an "Ask an Economist" video conference on the euro, which will be broadcast from the Cooperating School District's studio to five area schools.
- We collaborate with state treasurers' Bank at School programs to teach basic money and banking concepts.
- We develop teaching materials—videos, curriculum guides, booklets and more—and they're listed in the Catalog of Public Information Materials I mentioned.
- We write and distribute newsletters for teachers, featuring current information on economic issues and how to integrate it into a variety of subjects.
- We provide information on the Bank's web site with everything from money quizzes to sophisticated databases.
- We provide tours, mainly for adult and high school groups. Our guides are volunteer employees who enjoy talking about Bank and Federal Reserve history, and the Fed's role in the economy and the payments system.