Edward M Gramlich: Economic and financial education

Remarks by Mr Edward M Gramlich, Member of the Board of Governors of the US Federal Reserve System, at the Georgia Summit on Economic and Financial Education, Federal Reserve Bank of Atlanta, Atlanta, 4 September 2003.

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Thank you for inviting me to speak at today's conference. For many years, the Federal Reserve has played an active role in furthering economic education among youth. Recently, we expanded our involvement by promoting the importance of personal financial education for all demographic and social groups. In May, we launched a national campaign that included a public service announcement featuring Chairman Greenspan. Our goal is to increase public awareness of the value of effective personal financial management in home ownership, higher education, retirement security, and overall economic well-being.

While some may not consider the topic of economic and financial education to lie within the purview of a central bank, it is in fact quite consistent with the Federal Reserve's interests in many areas - economic policy, banking supervision, consumer regulation, public information, and community affairs. Hence, we appreciate your efforts in furthering education on these topics and applaud your interest in strengthening the effectiveness of your programs.

As you are well aware, a solid understanding of economics and finance is relevant to both individual financial success and to the proper functioning of markets. Consumers who are familiar with basic economic principles, who are able to analyze personal financial scenarios and options, and who have access to pertinent financial information are important components to the success of our free market system. With these tools - knowledge, analytical skills, and access to information - consumers are able to make more effective financial decisions. This furthers market efficiency by creating demand for products that are more responsive to consumer needs.

As providers of economic and financial education, you are quite familiar with the difficulties of choosing among the myriad products and services offered by our financial services sector. Financial markets are becoming steadily more sophisticated and expansive. Consumers are required to assume ever greater responsibility for managing their personal finances, such as their employer-sponsored retirement savings accounts. The result is that the need for financial education is also growing, and is indeed experiencing an unprecedented level of attention and funding from a broad base of supporters, ranging from financial institutions to employers to faith-based organizations.

With the growth in financial education programs has come an increased interest in measuring the effectiveness of such programs. Performance and outcome measurement should be the way to justify continued support for any program. Further, the data collected for the program evaluation process can identify “best practices” which can be replicated on a broad scale to increase the reach and effectiveness of successful programs. But unlike readily quantifiable outcome measures such as business profits, a bright-line test of success is not always available for financial education programs. There is often no single outcome that conveys success, and the determinants of achievement may depend on factors that vary from one individual to the next. Further, these programs may not realize a return on their investment for months, or even years.

Given the importance of evaluating a program's success, leaders of various economic and financial education programs have been exploring ways to measure the effectiveness of their activities. Staff of the Federal Reserve and the Department of Defense are currently collaborating to develop extensive and ongoing survey instruments to measure the value of financial education courses offered to Army personnel. Organizations such as Jump$tart, the National Endowment for Financial Education, and the National Council on Economic Education have employed various testing and survey strategies to quantify the impact of and measure the need for their programs.

In considering how to develop measurement criteria for financial education programs, it is logical to begin with primary objectives. The desired outcomes for financial education are

- Getting the message out - that is, increasing consumers' awareness of the importance of the issue to their well-being.
- Altering consumer behavior to improve short- and long-term prospects.

These goals have parallels to other public awareness and educational campaigns, and the parallels can assist in program design and evaluation. I will illustrate by offering some perspectives.

With regard to the first outcome - getting the message out - the Ad Council has sponsored studies to determine the impact of public service announcements on its targeted audiences. The findings suggest that certain public service announcements are effective in increasing awareness, reinforcing positive beliefs, intensifying concern, and moving people to action. One study, conducted by the Advertising Research Foundation, focused on the impact of public service announcements for colon cancer awareness that were aired in four major cities over the course of a year. The research found that as a direct result of the public service announcement, awareness of the threat of colon cancer increased by more than 3.5 times after a year, and the number of people discussing colon cancer with their doctor increased by 43 percent. The research also found that the message had a particularly strong impact on men, with awareness among males increasing nearly six times and the number of males taking action increasing by 114 percent.

A separate study was conducted by the University of Wisconsin to gauge the impact of the National Crime Prevention Council's anti-crime campaign. This study found that awareness of the trademark McGruff the Crime Dog reached 80 percent among the general public and 88 percent among crime prevention practitioners. In addition, nearly one-third of respondents indicated that they had learned from the public service announcements, and one-fifth reported that they had taken specific actions as a result of what they had learned from the campaign. These research findings suggest that issue-related information campaigns not only increase awareness of the importance of a given topic, but also motivate positive behavior change.

The second objective is to alter consumer behavior. This key goal is unfortunately quite difficult to quantify, but financial education organizations have committed their resources to conduct surveys and administer tests in order to better estimate programmatic impacts. The U.S. Department of Education is one agency that has conducted such assessments. It studied literacy programs involving teaching-related issues, including the provision of reading skills instruction to parents alongside children, the effectiveness of participatory and traditional approaches to teaching, and strategies for increasing participation and ongoing development of reading skills.

While there are many factors that differentiate financial education from adult literacy training, certain research results are suggestive. In particular, studies of methods that engage both parents and children in the educational process do reveal positive outcomes. One study compared the results of participants in Toyota Families for Learning, a family literacy-training program, with the results for participants in two adult-oriented literacy programs. Participants in the family-focused programs gained more than one grade level in their reading skills after one year, much greater than the grade-level increase of students in the two adult-oriented programs. The study attributes the increased level of success to higher retention rates in the family-focused program. It showed that 19 percent more adults remained in the family-focused program for more than twenty weeks. Other research on family literacy programs indicates that benefits also spread to child participants, with young children showing an increased interest in literacy and being better prepared for school than their peers.

Some other relevant information on educational programs designed to change consumer behavior may be found in research sponsored by the U.S. Department of Agriculture's (USDA) Food and Nutrition Service. The agency has evaluated a range of nutrition education, health promotion, and social marketing programs intended to improve consumers' understanding of the importance of good nutrition. The agency reviewed more than 200 studies that evaluated education research and intervention programs. These studies found that successful programs typically had five common characteristics:

- They set behavior change as a specific program goal.
- They incorporated motivating communications into the program.
- They taught strategies for behavior change.
- They included active involvement of both the individual and the community.
- They attempted to build health-enhancing environments.

The review also highlighted the findings of one evaluation of a school health education program reaching about 30,000 students. This study found that between five and fifteen hours of instruction resulted in enormous gains in students' knowledge about nutritional programs. However, between twenty-five and fifty hours of instruction were required to bring about any change in student behavior and attitudes, and even with this amount of instruction, the effects on attitudes were very small. These findings demonstrate the enormousness of the challenge in influencing behavior change through education.

I would also like to comment on the importance of developing effective information-delivery mechanisms. The agencies previously mentioned, along with others, have developed innovative Internet-based programs to provide education and information. Technology can play a big role here, by increasing the efficiency of financial education programs and by centralizing resources into information clearinghouses, which may help to reduce duplicative efforts and better exploit scarce resources. One example involves the Agency for Healthcare Research and Quality (AHRQ), which engages in activities that promote informed consumer decision-making. The agency uses different strategies to provide information to consumers on various health-related issues, including medical conditions and procedures, as well as on the range of choices in health care options and plans. Over the last several years, AHRQ has been developing software and database programs designed to help consumers and others choose among the wide variety of health care plans. This system, the Consumer Assessment of Health Plans, uses computer-driven survey instruments and reporting tools to collect data that permit a better understanding of consumers' sentiments about health care programs and experiences. Such a system could serve as a model for using technology to help consumers assess their financial needs.

Let me conclude by repeating how pleased I am to see this group of dedicated professionals meeting and discussing the challenges that face public educators. I would like to thank the Federal Reserve Bank of Atlanta for hosting today's conference and bringing together this group of educators. With your expanded knowledge and new contacts, I encourage you to continue to seek new and innovative ways to further your work and measure the outcomes of your programs. Success in increasing economic and financial literacy will be very important to the individuals you serve, as well as to the overall economy.