

Roger W Ferguson, Jr: The New England Economic Adventure

Remarks by Mr Roger W Ferguson, Jr, Vice-Chairman of the Board of Governors of the US Federal Reserve System, at the opening of the New England Economic Adventure at the Federal Reserve Bank of Boston, Boston, 8 October 2003.

* * *

It is a pleasure to participate in the opening of the New England Economic Adventure at the Federal Reserve Bank of Boston. The educational possibilities presented by the Adventure are truly exciting.

The Federal Reserve System has a long history of involvement in economic education. An understanding of economic principles, especially the workings of markets, is fundamental to good decisionmaking - whether by workers, or employers, or public policymakers.

I also confess to some self-interest in this regard. A better understanding of economics by the public makes the task of the Federal Reserve System easier. People may disagree with our policies - some may have different objectives and others may think different approaches to achieving those objectives would be more effective - but at least we are speaking the same language. They know what we are trying to do, and they know why.

Historically, much of our education effort has focused on increasing public understanding of the Federal Reserve System itself: how we are structured, the nature and scope of our mission, the monetary policy and supervisory tools at our disposal. Providing information about the Fed remains a key part of our programs. For the past ten or so years, we have been running the Fed Challenge, a competition in which teams of high school students engage in mock Federal Open Market Committee discussions and make recommendations regarding monetary policy. The quality of the analysis and the sophistication of the presentations have been impressive. By comparison, our own FOMC deliberations seem a little dry; for example, we on the FOMC tend to be a little more low tech than the students, who come armed with very colorful computer-driven graphics to support their analysis and arguments.

But teaching general economic principles has also been a recurring theme. A number of Federal Reserve Banks work closely with the National Council on Economic Education (NCEE), which has a host of fascinating programs that make teaching and learning economics fun. Gary Stern, the President of the Federal Reserve Bank of Minneapolis, currently chairs the NCEE, and I was privileged to address that group in May, 2002.

In recent years, the Federal Reserve has increased its attention to financial literacy, an area that might be seen as the more practical, personal side of economic education. This increased emphasis reflects changes both in financial markets and in the consumer population.

The number of financial products and financial service providers has grown dramatically. A widening array of financial choices offers the potential for great benefits to the public, but also poses temptations. More and more people are gaining access to credit; indeed, a host of lenders is probably inundating them with solicitations. The public can also select from a wide variety of savings vehicles, each with its special features. Ideally, the result of this increase in choice is lower costs and products that more closely match consumer needs.

But some consumers are not prepared to confront this array of choices. They lack the financial knowledge to evaluate the alternatives and to see future consequences. They may be too trusting of lenders that present a friendly face and promise quick and easy access to funds, and too suspicious of those that are more deliberative but offer much better deals. Newcomers to this country and populations who were previously denied access to credit markets particularly need assistance in coping with the increasingly complex financial system.

The Federal Reserve System recently launched a financial literacy campaign that includes a public-service announcement by Chairman Greenspan. We have developed a Personal Financial Education web site that contains links to a large number of national, state, and local consumer education resources.¹ On that site one can find information on such topics as on-line banking, how to

¹ <http://www.federalreserveeducation.org/fined/index.cfm>.

buy a home, and accessing credit reports. Individual Reserve Banks have also developed complementary web sites that include resources specific to their Districts. The Federal Reserve Bank of Boston's video and booklet on identity theft are among the highlights of the System's financial education offerings. The booklet, in particular, is a best seller.

The New England Economic Adventure continues this rich tradition and also breaks new ground. The Adventure, together with the auxiliary lessons and web materials, teaches important economic principles. In particular, it emphasizes the central role of productivity growth in raising standards of living and illustrates what goes into such growth. This is an especially timely lesson right now. As you may know, over most of the past ten years U.S. productivity growth has been about double that of the previous twenty years. Over the long term, productivity growth is the key to economic advancement. By way of illustration, the pickup in productivity growth from an average of just under 1-1/2 percent from 1973 to 1995 to about 2-3/4 percent from 1995 to 2002, if maintained, suggests that living standards could double in twenty-five years rather than fifty years at the lower rate. Thus, the rate of productivity growth in an economy is not just an ivory tower concept. It translates into improvements in people's well-being over the long term. Understanding how such growth occurs - and having some fun doing it - is what the Adventure is all about. In the short-run, when productivity is growing more rapidly, aggregate demand must also increase more quickly, in order to prevent economic slack from increasing. Over the last several quarters, demand has not been expanding as quickly as the economy's productive capacity, and the result has been the marked lack of job growth. But as demand accelerates, job growth should improve also.

Finally, while I would like to think that all of the Federal Reserve System's economic education and financial literacy initiatives are lively and engaging, I suspect that the New England Economic Adventure will have special appeal. To many people history has a stronger allure than economics. New England has a particularly fascinating history and provides rich illustrations of economic decisionmaking. Meanwhile, the computer-based interactive investment games link visitors to historical events, providing dramatic tension as well as fun. I have been told by the Boston Fed staff that the Adventure program had to be slowed down a bit to allow time for cheers and moans after winners of the various rounds were displayed. Boston middle school students were particularly enthusiastic.

So again, I am delighted to be here to celebrate the opening of the New England Economic Adventure and to stress the importance of economic education and financial literacy.