The Importance of Early Economic Education

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57th Annual Financial Literacy and Economic Education Conference
National Council for Economic Education
Atlanta, Georgia

October 5, 2018

- Atlanta Fed president and CEO Raphael Bostic speaks to the National Council for Economic Education about the importance of economic education for both monetary policymaking and the future of the economics profession.
- Bostic notes that the current economic growth picture looks bright, but businesses appear to be exercising a healthy dose of restraint regarding the outlook. Inflation is currently running very near the FOMC's price stability target of 2 percent and appears poised to continue to do so.
- Bostic says that in addition to data and econometric models, the Atlanta Fed relies on an extensive network of business contacts to shape its thinking about the regional economy.
- Bostic also observes that despite the recent pickup in household spending, consumers are deferring large, irreversible expenditures.
- Bostic emphasizes the importance of attracting young people to careers in economics, banking, and finance. He says that achieving a diversity of opinion is important as it helps to challenge conventional wisdom.
- Bostic: Educators need to be creative in sparking their students' interest in economics as a profession early in their academic careers. Bostic has challenged his Atlanta Fed colleagues to build momentum toward this goal.

It's a pleasure to be with you at this awards luncheon today. These award-winning teachers exemplify the committed educators across this nation who equip students with tools and information to help them meet their full potential and ultimately contribute to the success of our nation.

The issue of economic education is one that has been a soapbox of mine, which is why I was pleased to learn upon arriving in Atlanta last year that our Bank has taken a leadership role in developing the economic and financial literacy of students throughout the Southeast. We are committed to supporting teachers through professional development programs and the creation of classroom-ready resources. As you saw in the new video a few moments ago, Reserve Banks across the Federal Reserve System engage educators through similar endeavors. I am proud of this work.

In addition, our work in the Sixth Federal Reserve District would not be possible without committed external partners. Being in Atlanta, I think it's appropriate to give a shout-out to the Georgia Council on Economic Education, led by Mike Raymer, with whom we have had a successful and longstanding partnership. Thanks to Mike and his team for all they do to help advance our goals.

But we are equally grateful for the outstanding relationships with our partners at other state councils and centers across the Sixth District, many of whom are here today. At the national level, the System Economic Education group partners with the Council for Economic Education. Nan Morrison, the System is grateful for your contributions to the Centennial Advisory Council. And I know that my colleague Loretta Mester, the president and CEO of the Cleveland Fed, is pleased to serve on the Council's board of directors.

Today I want to talk about economic education from two perspectives. First, I will highlight its importance for current policy, including some thoughts on last week's Federal Open Market Committee (or FOMC) meeting. Second, I'll offer a few comments on how I'm seeing current economic conditions. Third, I want to discuss economic education and your role in introducing young people to the discipline of economics.

As always, the views I'll offer are mine alone. I don't speak for the FOMC or for any other Fed official.

A view on the FOMC and policy

Speaking of the FOMC, I thought I might start my remarks by trying to shed some light on what happens at a Committee meeting and how I prepare for it. I'm guessing you are familiar with the nuts and bolts of how the Committee is structured, so I thought I might talk a little inside baseball.

As you know, the FOMC meets eight times a year, roughly every six to eight weeks, to determine the appropriate stance of policy. At each meeting, every Committee participant offers his or her perspective of current national and local economic and financial conditions, what the policy path moving forward should look like, and the risks associated with that outlook.

Every Fed governor and president has the floor twice, and I will never forget the first time the floor was mine. Statements are often written out in advance, so that the transcript reflects the precise ideas an FOMC participant seeks to convey, and I had taken this approach. This being my first foray into the process, I wanted to be extra sure everything was precise and on point.

Normally, when I read a statement, I try to make it sound conversational, with emphases and pauses for effect. So I was going along and got to one of those pause moments, and when I paused, the room was completely silent. I had done a lot of speaking in front of people, much of that time, like you, in front of a class. In most of those instances, though, I knew that some small fraction of my audience was not listening or paying attention. You know exactly what I mean here.

Now, here I was, speaking before a very important monetary policy institution that included some titans of economics, such as Janet Yellen and Stan Fischer, and everyone was laser focused on me and what I was saying. To be honest, it was a bit nerve-wracking. Terrifying, actually. But I managed to get through it and, in time, have gotten more used to it. It is truly an honor and privilege to have an opportunity to contribute to policy in this way.

To prepare for the FOMC meetings, my staff and I have frequent, ongoing conversations about the national economic picture, the output of a variety of economic and statistical forecasting models, and any academic research that may prove useful in understanding all the aspects of the current environment.

Out of these ongoing conversations, my staff has developed quite a few interesting tools to help us analyze economic developments. We have even made public some of the tools that we have found particularly useful.

Perhaps the most well-known of these tools is one we use to get an early indication of current-quarter gross domestic product (GDP). Our GDPNow forecasting model provides a "nowcast" of the official GDP estimate before its release, using a methodology similar to the one used by the U.S. Bureau of Economic Analysis.

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

Other tools we have developed include our Wage Growth Tracker, which is a measure of nominal wage growth that is less susceptible to changes in the makeup of the workforce than average hourly earnings. As a result, it may give us a cleaner reading on wage pressure.

And we've also developed survey tools like the Business Inflation Expectations survey, which helps us better understand and track the inflation expectations of businesses.

These are just a few of the many tools economists at the Atlanta Fed have developed to better understand the economy—and they're free. So, in a shameless plug, go check out our website at frbatlanta.org.

But I don't just rely on national statistics, economic models, and input from my research staff. The Atlanta Fed has also built an extensive network of business contacts, community groups, and nonprofit organizations that we affectionately call REIN—or the Regional Economic Information Network.

Insights from this REIN network help me paint a broader picture of the health of the economy than I could capture with economic models alone. With the aid of these Main Street perspectives, I can dig into puzzling developments in the macroeconomic data, get a different perspective on the challenges that businesspeople in my district are confronting, and gain some visibility into their expectations for the future.

Current economic outlook

Now that you've gotten a peek behind the curtain, let me briefly turn to my current economic outlook. The incoming economic data on the real side of the economy have come in stronger than I had been expecting earlier this year. So much stronger, in fact, that the central question in my mind is whether the apparent strength in GDP and job growth is a signal that I have materially underestimated the underlying momentum of aggregate demand. If that's the case, the potential for overheating would require a higher path for rates than what I had been thinking.

Given the particular challenge of interpreting these data at the moment, what is likely to happen and what does this imply for policy? I've been leaning heavily on my REIN network and Bank directors to glean some useful signals on the likely forward path of the economy.

These business leaders have struck a largely upbeat tone regarding the current environment, with the majority reporting that demand roughly matched or was slightly above their expectations. That said, my contacts generally indicated that they have ***not*** materially revised their outlooks for the remainder of 2018 and 2019.

This sentiment is especially true regarding expectations of future capital investment spending. This is puzzling, as economic and statistical models would assess the recent trajectory of investment growth and project a further acceleration in investment spending, especially against a backdrop of recent tax reform and fiscal stimulus.

So we delved into this issue during conversations with our contacts. The responses were a little varied, but they had one unifying theme: Businesses' investment strategies are driven by demand fundamentals. In this environment, business leaders have not yet bought into a significant persistent pickup in demand beyond their current capabilities to meet that demand.

Uncertainty regarding tariffs and trade policy remains a feature of the economic landscape, but I get the sense that business leaders have become inured to the seemingly endless string of day-to-day fluctuations in the business environment. So much so, that it is dampening their reactions to good news as well.

Turning to the consumer, the recent data point to a pickup in household spending. However, I think it is noteworthy that much of this recent strength has not been in goods that are associated with longer-term commitments, such as autos and large appliances. A reasonable interpretation of this behavior is that households are exercising prudence, not wanting to take big, irreversible bets. And it is in this light that I view the personal saving rate, which has remained elevated relative to its average over the previous expansion. So, despite high levels of sentiment and improved balance sheets, households, like businesses, are continuing forward with caution.

On inflation, I see retail prices continuing to increase at about a 2 percent pace.

Consistent with aggregate measures of wage growth, reports from my district suggest some firming in labor costs. A growing number of firms across the District reported an uptick in merit increases, averaging in the 3 to 3.5 percent range.

Further, there was a marked uptick in the reported ability of firms to pass on cost increases. This was especially true for firms subject to tariff- and freight-related cost increases. Those firms reported little to no pushback when passing along rising costs to their customers. But I get the sense that the phenomenon is becoming more widespread. It's a development that I will continue to watch closely.

In sum, the current economic growth picture looks bright, but businesses in my district, at least, appear to be exercising a healthy dose of restraint regarding the outlook. Inflation is currently running very near the FOMC's price stability target of 2 percent and appears poised to continue to do so.

Based on that assessment of the health of the economy and its likely path forward, last week I voted with my colleagues on the FOMC to raise the federal funds target range by 25 basis points to 2 to 2 ¼ percent.

Current conditions suggest, to me, that we ought to get to a policy stance where our foot is neither on the gas pedal—what we call an accommodative policy—nor on the brakes—what we call a restrictive policy. Such a neutral policy position would allow the economy to stand on its own.

The importance of early economic education

Now I'd like to turn to a topic about which I am passionate—and one that we need your help in addressing. We need a far deeper pool of young people to see economics, banking, and finance as desirable career paths. Without a deep and diverse workforce, our fields suffer. For example, ideas are challenged less often and conventional wisdoms can persist, even when they're wrong. So we need to make sure a strong pathway exists for people to learn about, and be excited by, economics and finance.

I take myself as an example. I discovered economics by accident, only after I had a scary experience in an introductory chemistry class, which led me to find other channels to pursue academically. First, I studied psychology and after that, economics. This path worked for me, but I'd rather see people come to this profession by choice rather than chance.

It seems to me that early exposure to the economic way of thinking, and explanations of how economics is useful and important for everyday life, are critical. One approach that the Council has advocated is for all states to require that high school students take a dedicated economics course. As you know, the Council's latest Survey of the States found that less than half the states require high school students to take an economics course. Only 16 of those states have a state-mandated test of economic concepts, a number that has not moved since 2014. So there remains work to do here.

A second approach is to push for states and school districts to introduce, and perhaps mandate, economics courses and modules in the grades leading up to high school. In Georgia, the history of a standalone economics course that is validated with a meaningful state test has driven a focus on economics at every grade level from K through 8. And it has been accompanied by levels of success by African-American students in advanced placement economics courses that outpace the national average.

It is my goal that the Federal Reserve play a leading role in this latter effort. This summer, my staff started working with Fed staff in St. Louis and others to develop strategies for the creation of new curricula and teaching modules for grades K through 12 and content to fill them. My hope is that these efforts result in materials that are promulgated nationwide and certified by states as exemplary tools that are then adopted by school systems across the United States. I hope the Council's network serves as a powerful partner in helping us with this, so that together we empower educators to ignite students' passion and imagination.

The time has come to equip a cadre of K through 12 teachers across this country to reach students from every background, in every school, so that their discovery of economics is not accidental, like mine. I encourage you to join us in this pursuit.

Thanks, and now I'll be glad to take some questions.