

# The Economic Importance of Being Educated

**INSIDE:**

Early Childhood Education

Consumer Finance

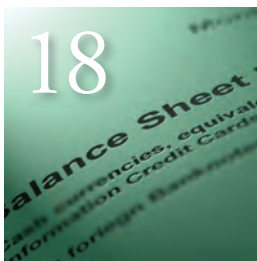
Mortgage Counseling

**PLUS:**

Q&A with Laurence Meyer

# Forefront

New Ideas on Economic Policy from the FEDERAL RESERVE BANK  
of CLEVELAND



*The views expressed in Forefront are not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve System. Content may be reprinted with the disclaimer above and credited to Forefront. Send copies of reprinted material to the Public Affairs Department of the Cleveland Fed.*

Forefront  
Federal Reserve Bank of Cleveland  
PO Box 6387  
Cleveland, OH 44101-1387

forefront@clev.frb.org  
clevelandfed.org/forefront

FALL 2010

Volume 1 Number 3

## CONTENTS

- 
- 1 President's Message
- 
- 2 Reader Comments
- 
- 4 Upfront  
Battling the next phase of the housing crisis
- 
- 6 Stop Investing in Stadiums... Start Investing in Kids  
Interview with Art Rolnick
- 
- 10 Mortgage Counseling, Plain Language, and  
Financial Education: What Works?  
Highlights from the 2010 Community Development Policy Summit
- 
- 14 Five Big Ideas about Consumer Finance Education  
Observations of a Federal Reserve researcher
- 
- 18 Overextended, Underinvested:  
The Debt Overhang Problem  
Economists explain how debt kills investment
- 
- 22 Interview with Laurence Meyer  
Former Federal Reserve governor on the state of macroeconomics
- 
- 28 Book Review  
*The Big Short: Inside the Doomsday Machine*
- 

**President and CEO:** Sandra Pianalto

**Editor-In-Chief:** Mark Sniderman,  
Executive Vice President and Chief Policy Officer

**Managing Editor:** Robin Ratliff

**Editor:** Doug Campbell

**Associate Editors:** Amy Koehnen, Michele Lachman

**Art Director:** Michael Galka

**Designer:** Natalie Bashkin

**Web Managers:** Stephen Gracey, David Toth

**Contributors:**

Dan Littman

April McClellan-Copeland

Filippo Occhino

Anne O'Shaughnessy

Andrea Pescatori

Jennifer Ransom

**Editorial Board:**

Ruth Clevenger, Vice President, Community Development

Kelly Banks, Vice President, Community Relations

Stephen Ong, Vice President, Supervision and Regulation

James Savage, Vice President, Public Affairs

Mark Schweitzer, Senior Vice President, Research

James Thomson, Vice President, Research

# PRESIDENT'S MESSAGE

**Sandra Pianalto**

President and Chief Executive Officer

Federal Reserve Bank of Cleveland



Ever since the first signs of economic recovery appeared, I have expected that the path forward will be gradual and bumpy. It certainly has been so far. At this point, our journey to full economic recovery is really just beginning. I can assure you, however, that my colleagues and

I at the Federal Reserve are committed to using the tools we have to pursue our dual mandate from Congress — to keep prices stable and to promote maximum employment.

We will do our job as central bankers to help our economy get back on track. It's important to acknowledge, however, that some long-term goals for economic growth require broad commitment from all Americans. Above all, we must not forget education's crucial role in determining economic growth. The results of research in this area, including some by economists at the Federal Reserve Bank of Cleveland, are crystal clear: One of the best ways for cities, states, and countries to increase their per capita income is to raise levels of educational attainment.

Educating people may not sound terribly urgent during difficult economic times, but when it comes to creating jobs and finding people who have the skills to fill them, nothing is more important than education. Incomes are largely determined by how productive people can be, and education plays a crucial role in increasing productivity. Investing in education enables people to produce more valuable services in a given amount of time. On top of that, an educated populace is better equipped to navigate our increasingly complicated financial markets.

That is why this issue of *Forefront* presents a package of articles focused on the compelling returns to education.

We begin with an interview with Art Rolnick, former research director at the Federal Reserve Bank of Minneapolis, who forcefully lays out the unambiguous results of research on early childhood education: Preparing children for kindergarten may be the single most effective way to foster their future success. Rolnick has taken the research a step further and developed a pilot program for early education in St. Paul, Minnesota, which may be expanded statewide. I look forward to seeing the results.

Early childhood education is a first step. Sustained investments in education are likewise important. In "Five Big Ideas about Consumer Finance Education," the Federal Reserve Board's Jeanne Hogarth talks about the intersection between high-level research and street-level results. Rounding out our coverage, we examine financial education about the housing market with a review of the Federal Reserve Bank of Cleveland's 2010 Community Development Policy Summit. In particular, we look at the effectiveness of mortgage counseling in helping borrowers steer through the sometimes-opaque process of buying a home.

The policymakers and shapers in these articles share a passion and a dedication to achieving progress in education. They have moved past agreement on our long-run priorities and dug deeper into the nitty-gritty of achieving those priorities. They are taking an honest look at what works and what doesn't. I am hopeful that their experiences will give others the courage to leave behind programs that do not deliver on achieving our education priorities.

As always, there are no quick fixes. Identifying education investments as sources of progress is easy, but achieving them requires great commitment. These challenging economic times provide an opportunity to make decisions guided by a long-term view. So, as we slowly recover from the recession, let us lay the groundwork for a long-lasting economic expansion. Let's renew our commitment to educating Americans. ■