

The Ledger

Federal Reserve Bank of Boston's Economic Education Newsletter

Winter 1999/2000

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Fed Sponsors Two Competitions for High School Students

Economics Challenge Is New, Fed Challenge Enters Its Fifth Year

The Federal Reserve Bank of Boston is pleased to be sponsoring two competitions for high school students. Fed Challenge, the older of the two competitions, focuses on the formulation of monetary policy, while the Economics Challenge, new this year, is broader in scope.

Fed Challenge

For the fifth consecutive year, the Federal Reserve Bank of Boston will be participating in the Fed Challenge. The Fed Challenge competition promotes economic literacy by asking students to simulate the roles of Federal Reserve monetary policy-makers. The competition encourages the development of important skills such as decision-making, argument formulation, and effective communication.

Each five-member team makes a 15-minute presentation before a panel of judges at a modified mock meeting of the Federal Open Market Committee, the Federal Reserve's monetary policy arm. Presentations include, but are not limited to, the following:

1. Analysis of current economic conditions as of the day of the competition;
2. Predictions about economic, financial, and international conditions in the near term that would be of special significance for the development of monetary policy, such as inflation, unemployment, real GDP, and other economic policy indicators;
3. Explanation of issues that should receive special attention in formulating current monetary policy;
4. Recommendations to the Federal Open Market Committee to maintain or alter (and to what degree) the current course of monetary policy.

Following the presentation, the judges will lead a ten-minute question-and-answer session. The judges'

questions range from issues raised in the team's presentation to requests for clarification of data to student interpretation of recent economic events.

The competition consists of three rounds:

Preliminary Round (sites to be determined):

March 8, 2000

March 9, 2000

March 13, 2000

March 15, 2000

March 21, 2000

New England District Final:

April 5, 2000

Washington, D.C. National Final:

April 29 - May 1, 2000

If you have questions about the Fed Challenge, contact the Public and Community Affairs Department at 1-800-409-1333 or check out the Fed Challenge web site: www.bos.frb.org/educate/fedchal/fedchal.htm.

Fed Chairman Alan Greenspan and past Fed Challenge winners



The Ledger

Bob Jabaily, Editor

Research Department
Federal Reserve Bank
of Boston
P.O. Box 2076
Boston, MA
02106-2076
Or phone:
(617) 973-3452

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Research Department
Federal Reserve Bank
of Boston
P.O. Box 2076
Boston, MA
02106-2076

internet:
www.bos.frb.org

e-mail:
robert.jabaily@bos.frb.org

Economics Challenge

The Federal Reserve Bank of Boston is pleased to announce its first Economics Challenge. The Economics Challenge is a contest for high school students that challenges their knowledge and understanding of all aspects of economics.

Each team consists of three to five members. The sum of the top three individual scores on each team will represent the team score. Each competitor participates in a ten-question, written multiple-choice test in each of the following six areas:

- Microeconomics
- Macroeconomics
- International economics
- Current events
- Financial literacy
- Economic history

Each member has 20 minutes to complete each test. Participating schools are divided into three different groups:

- Large school
- Small school

- Advanced placement or
College-in-the-schools program

The top three individual scorers in each group move on to the individual final. The individual final consists of 30 open response questions picked randomly from the six areas. The competitors are given a maximum time of 15 minutes to complete the individual final, which is in a Quiz Bowl-style format.

The competition begins with the written test in the morning, followed by a lunch break. After lunch the individual competitors participate in their round of competition. Following the event is an awards ceremony in which individual and team prizes are awarded.

The benefits to both student and teacher alike are many. The competition:

- sparks independent study,
- stimulates interest in economics and other social studies subjects, and
- enhances debate, discussion, and analytical skills.

The New England District Competition will be held on May 18, 2000, in Boston, Massachusetts.

By the Numbers

A Statistical Snapshot

Each issue of **The Ledger** highlights a statistic related to economic change. This time, as a complement to the "consumer revolution" theme in **Worth a Thousand Words**, we take a look at total U. S. advertising expenditures, 1937 to 1997.

Total U.S. Advertising Expenditures 1937-1997	
1937	\$2,072,000,000
1947	\$4,260,000,000
1957	\$10,311,000,000
1967	\$16,866,000,000
1977	\$37,440,000,000
1987	\$109,650,000,000
1997	\$186,765,000,000

Source: U.S. Department of Commerce, Bureau of the Census

Something to Think About

Does advertising drive spending or does spending drive advertising? Are higher advertising expenditures tempting us to spend our money on things we don't really want? Or are advertisers spending more because they need to compete for our attention in a market that offers us more choices? What do you think?

Economic Systems

Capitalism: You have two cows. You sell one and buy a bull.

Communism: You have two cows. The State takes both and gives you milk.

Socialism: You have two cows. The State takes one and gives it to someone else.

— *excerpt from an Internet joke that's been making the rounds for years*

With all the changes that have taken place since the late 1980s, it's tempting to think of "communism" and "socialism" as anachronistic terms. But that might be premature. Anyone who follows world events knows that the transition to a market economy has not gone smoothly in Russia and the former Soviet Republics. Economic reform has yielded mixed results in the former communist states of Eastern Europe, and German reunification has triggered its own set of economic and social tensions. Even the democracies of Scandinavia and Western Europe are trying to decide how far to go in dismantling costly social welfare programs that have served as a safety net for more than half a century.

But as a sage once said, "It ain't over 'til it's over," so let's recap the basic differences that separate capitalism, communism, and socialism:

- **Capitalism** is based on private ownership of property and productive resources. Capitalists believe that markets are the most efficient mechanism for allocating goods and services, and markets develop when buyers and sellers freely come into contact with one another.

Sellers in a market economy would like to make as much profit as they can from their privately owned resources. How? By using their resources to produce goods and services that buyers want. And buyers demonstrate their preferences through the choices they make in the marketplace – what they choose to buy and the price they choose to pay.

- **Communism** advocates common ownership of productive resources as the best way to satisfy material needs and smooth out the inequalities between rich and poor. In practice, "common ownership" has meant government ownership of nearly everything – natural resources, factories, transportation networks, commu-

nications systems, media outlets, food stores, department stores, and social services. Government officials decide which crops to grow, what products to make, and what prices to charge.

In theory, communism is supposed to evolve to the point where government is no longer necessary. But in practice, government officials usually form the most privileged class in communist countries.

- Under **socialism**, the government often owns and controls most natural resources, heavy industries, transportation systems, and essential social services such as health care, while private enterprise produces much of the food and most of the consumer goods. A government-owned company might control oil production, but a privately owned fashion house would determine the style and production quantities for this season's evening gowns.

In some socialist countries, parallel systems develop. For example, there could be a low-cost, government-run health care system that is open to everyone, and a private health care system for those who are willing and able to pay more.

Caribbean Communism

"For years Fidel Castro had a bargain with the Cuban people: the Communist state provided all the basics of a job, education and health care, and the Cuban people provided the state with blind allegiance. But given the limitations of the Cuban economy, and the pain of the U.S. [trade] embargo, that bargain was only sustainable with the help of \$6 billion a year in Soviet aid. When the U.S.S.R collapsed after 1989, so did the aid."

— *excerpt from "Hazy in Havana," by Thomas L. Friedman, New York Times, Sunday, October 3, 1999*

Comparing economic systems isn't as easy as it used to be. Even among the handful of countries that

Working on Fundamentals

When it comes to economics, one of the challenges a teacher faces is identifying the major concepts.

The National Council on Economic Education had this concern in mind when it developed *A Framework for Teaching Basic Economic Concepts*. (Visit the National Council's Web site at www.nationalcouncil.org)

Each issue of *The Ledger* highlights a concept from the Framework. This time we focus on economic systems.

FPO

The band at a sold-out concert in Amsterdam.
Geraint Lewis © 1999
Courtesy of Artisan Entertainment

still consider themselves communist, there's a new willingness to adopt some of the principles and practices of a market economy.

Cuba is a prime example. Although the Castro government remains strongly committed to communism, it now permits Cubans to engage in very modest forms of free enterprise. Three examples: 1) people can open restaurants in their homes; 2) farmers who exceed their production quotas can sell their surplus at unrestricted prices; and 3) the government has trimmed subsidies to inefficient state-run industries.

But make no mistake, Cuba is still a "command" economy, beset by all the inefficiencies and shortcomings that arise when government officials make most of the major – and minor – economic decisions. The average Cuban monthly wage is approximately \$15. Food is rationed and the selection of consumer goods is limited. Chances of having a car are extremely slim for anyone who isn't connected to the government

elite. (Cuba's street mechanics are legendary for their ability to coax extra miles from 1950s vintage American cars that pre-date the communist revolution.)

But on the plus side, Cuba's education and health care systems are very good – especially in comparison with those of other countries in the Caribbean Basin.

And Cubans are quick to point out that a portion of their economic hardship stems from the U.S. trade embargo that has been in place since 1961. According to a November 1999 Associated Press report, "Cuba is now the only country to which the United States still bans the sale of food and medicine – after Washington's recent lifting of similar bans on Iran, Libya, Sudan and North Korea."

Class Struggle

Almost everyone would agree that students ought to know how and why economic systems differ. But the topic poses challenges for classroom teachers because:

- Words that end in "ism" and phrases such as "means of production" are virtually guaranteed to make students' eyes glaze over; and
- It's not always easy to help students recognize the differences between economic systems without sounding like either a cheerleader or an ideologue.

Having the right tools helps. And there are two very useful tools for comparing economic systems: a concert film and a factbook.

	Literacy Rate	Life Expectancy	Infant Mortality ⁷
USA	97.0%	76.23 years	6.33/1000
Cuba	95.7%	75.78 years	7.81/1000
Jamaica	85.0%	75.62 years	13.93/1000
Guatemala	55.6%	66.45 years	46.15/1000
Haiti	45.0%	51.65 years	97.64/1000

Source: *The World Factbook 1999*, Central Intelligence Agency



On one level, *Buena Vista Social Club* is a straightforward concert film about Cuban musicians. But on another level, it speaks volumes about the difference between a command economy (Cuba) and a market economy (the United States).

The film is a spin-off project from a surprise hit record put together by American musician Ry Cooder and "world music" entrepreneur Nick Gold. Both had traveled to Cuba in 1996 in search of a new sound. What they found instead was a sound older than the Cuban revolution.

Among the stars of both the record and the film are 90-

year-old singer/guitarist Compay Segundo, 80-year-old pianist Ruben Gonzalez, and 72-year-old singer Ibrahim Ferrer. All three had seen their careers fade after the revolution, partly owing to the passage of time but also because the political and social climate had changed. (Revolutions, after all, demand music that supports their political objectives.)

The record revived their careers and reintroduced their music to international audiences. By 1998, they were playing to sellout concert crowds in Europe and the United States. And after the film opened, their popularity soared even higher.

So why is *Buena Vista Social Club* such a good teaching tool for comparing two very different economic systems? In part because of what it is NOT.

There is no overt political content. The film doesn't preach. It simply focuses on a group of very engaging human beings doing something they have always loved – making music.

Director Wim Wenders did not set out to make a film that compares economic systems, but the scenes that juxtapose Havana with New York invite a comparison that is difficult to ignore. The Cuban capital looks tired and even a bit sad. Buildings crumble for

lack of maintenance; dreams wither for lack of hope. Only the music serves as a reminder that Havana was once among the most vibrant cities in the western hemisphere.

Communist Cuba may not suffer from the grinding poverty that afflicts much of the developing world. But at the same time, there seems to be a pervasive sense of melancholy. Cuba in the late 1990s does not give the appearance of a place where people have the opportunity to make their dreams come true.

The contrast between a command economy and a market economy is sharpest when the Cubans travel to the United States for a concert date at Carnegie Hall. A pair of white-haired musicians stop to marvel at the material abundance on display in Manhattan store windows, and even a souvenir shop collection of celebrity statuettes becomes a source of wonder.

In a particularly compelling scene, the lights, sounds, and energy of a New York night work their magic on 72-year-old Ibrahim Ferrer. "I never could have imagined," Ferrer says to no one in particular as he walks along Broadway. "I am under the spell of this."

But the film does not beat viewers over the head with the disparity between material life in Cuba and the United States. *Buena Vista Social Club* is not a message movie. And in the end, maybe that's why it works so

well as a tool for exploring the differences between economic systems.

The film is available at many video rental stores.

Homework Help from the CIA

Another useful tool for comparing economic systems is *The World Factbook*, prepared by the Central Intelligence Agency. (Yes, we're talking about the same CIA

that carries out covert operations.)

The Factbook profiles every country from Afghanistan to Zimbabwe. Each profile features a map and subheadings for people, geography, government, economy, communications, transnational issues, transportation, and military.

None of the information is "top secret," and a lot of it may be available from other sources. But what other reference tool has the same cachet?

The Factbook is available online at www.odci.gov/cia/publications/factbook.



Ry Cooder (right) with his son Joachim in Havana, Cuba during the making of BUENA VISTA SOCIAL CLUB. Donata Wenders © 1999 Courtesy of Artisan Entertainment

Worth a Thousand Words

Anyone who has ever spent time looking at old photos knows how vaguely unsettling the experience can be. The people, frozen for all time in a single instant of work or play, have a way of drawing us into their world. Their eyes look out at us from across the years, and we can't help but wonder if their dreams and fears were at all like ours.

Worth a Thousand Words uses the power of archival photos and prints to look at economic life in New England.

One day folds seamlessly into the next. Sometimes we lose track of how fast time passes and how much life changes.

Then one day it happens. Someone says to us, "Hey, look at this old photo." And we think to ourselves, "Old? No, that photo was taken only . . . 30 years ago!!!"

Thirty years separate the photos on these pages, but the images are as different as the Flintstones and the Jetsons.

The New England woman standing over her stove in the 1940 photo, probably could have looked around her kitchen without seeing a single piece of plastic – not to mention a self-cleaning oven and a frost-free refrigerator. She lived in a world that pre-dated television, credit cards, shopping malls, permanent press fabrics, interstate highways, commercial jets, Las Vegas, and Disneyland.

The 1970 promotional photo depicts a far different world. A "happy family" is paying homage to its new color TV, and the caption reads:



Photos courtesy of Boston Public Library, Print Department

"A year-round Christmas present for all the family to enjoy is a color television set from the new accurate color line by RCA. This contemporary-styled table unit with 20-inch screen is the 'Barrie.' The new line has a little device that automatically locks in a color-perfect picture every time, making it possible for even the little princess to flick a switch and see her special program in correct color. As shown here tilt-out panel on front of set eliminates need to squat down to operate seldom-used channels."

In the span of one generation, Americans had experienced a consumer revolution that might have been unimaginable to the woman toiling in her 1940 kitchen. But then again, the 1970 "family" might have had a hard time believing that in another 30 years they would be surfing the Net, mounting a satellite dish on their house, listening to CDs, cooking dinner in a microwave, and watching a 27-inch color TV that cost less than \$300.

Attitudes change, too.

The 1970 photo appeared on the "Women's Page" of the Boston *Herald-Traveler*. Try to remember the last time you saw a "Women's Page" in the newspaper. And don't even think of using the term "little princess," as the caption does. Today's ten-year-old girls would not react kindly.







Test Your Economic Literacy

Put the words “economics” and “test” together, and most people will start to shudder. But the Federal Reserve Bank of Minneapolis Economics Literacy Test is virtually stress free. The 13-question, multiple-choice exercise takes only a few minutes, and it’s online, so if you miss an answer or two, no one will ever know.

Here is a sample question: *Why are private businesses not likely to operate a lighthouse?*

- A. Ship owners buy insurance policies to protect themselves from losses so they won’t pay for lighthouses.
- B. The light from the lighthouse can be used even by ships that do not pay a fee for the service.
- C. It would cost private business more to operate a lighthouse than it costs the government.
- D. The cost of operating a lighthouse is too high.

To find out the correct answer, go to the Minneapolis Fed web site and put yourself to the test: www.woodrow.mpls.frb.fed.us/ and click on economic literacy test.

An Online Glimpse at Life in a 19th Century New England Town

The Diaries of George M. Wadsworth, Franklin, Massachusetts

www.franklin.ma.us/community/diaries/

Gail Lembo wasn’t looking for a long-term project when she bought the Wadsworth Diaries at a yard sale in 1991. But later, as she sat at home and leafed through the pages, she realized she was holding a local treasure that “shouldn’t belong to any one person.”

After six years of editing and transcribing the original hand-written diaries, Ms. Lembo donated the fruits of her labor to the people of her hometown – Franklin, Massachusetts. Volume One (1857-1863) is currently accessible through the town’s web site: www.franklin.ma.us/community/diaries/. Volume Two (1866-1871) will be online in the near future. Eventually Volumes Three and Four (1882-1893) will also be on the web.

Take a look at the diaries the next time you’re on the web. They are an excellent

supplementary resource for social studies teachers and students.

• • • •

George Wadsworth has been dead since 1907, so he won’t mind if you read his diaries. But don’t expect to be titillated. It’s not that kind of diary.

The Wadsworth Diaries are a chronicle of daily life in 19th-century Franklin, Massachusetts. They are the no-frills writings of a practical man trying to cobble together a better-than-average living in a New England town.

Wadsworth’s concise observations on everyday life evoke a world very different from ours – a world in which people still made their own clothes, grew much of their own food, and performed most of their own maintenance:

- *Tuesday, January 20, 1857*
Had a shirt cut and made by Cousin Martha. Went to Phersons. Staid till noon and did the chores and carried snow out of the cellar.

Tending to the basic necessities of life required an inordinate amount of time and effort. Spring, summer, and early autumn were largely given over to planting, cultivating, and harvesting. Late autumn, winter, and early spring days were often spent stocking up on wood for cooking and home heating:

- *Monday, February 16, 1857*
Staid at home and cut wood. . .
- *Tuesday, February 17, 1857*
Staid at home. Cut wood. . .
- *Wednesday, February 18, 1857*
Sawed wood for Mrs. Wright.

People in mid 19th-century New England towns also lived much closer to the



Photo courtesy of Gail Lembo

elements than we do – a fact reflected in Wadsworth's frequent notations on the weather:

- *Friday, February 13, 1857*
Staid at home. Got ice in the forenoon.
Stormed in the afternoon. Broke the
Rocking Chair.
- *Monday, April 20, 1857*
Stormed very hard all the afternoon and
part of the forenoon but we, Mr. Swan
and I, loaded cars with lumber and got
wet through. Joseph went to Holiston
with the horse. Father bought a pig.

And as is typical of any agricultural society, religion and kinship circles were important in 19th-century Franklin:

- *Sunday, March 29, 1857*
Went to [religious] meeting to the school
house in the forenoon. No meeting in the
afternoon till five. Then went to Mr.
Phersons to meeting with Joseph, Cousin
Mary, Abbie & Sarah.
- *Saturday, April 11, 1857*
Loaded lumber, stacked up boards at the
mill. Father went to F. Richardsons and
got some apple trees. Unkle Richardson
and aunt Harriet came here in the evening.
- *Tuesday, July 14, 1857*
Looked like showers & very warm. Father
& I mowed side the RR [railroad] by my
potatoes. Joseph & Cousin John turned the
hay & spread the swaths & helped rake &
get in the hay.

Yet despite the never-ending physical labor and daily drudgery, Wadsworth and his contemporaries were extremely social beings. Dances, parties, sewing circles, and sing-alongs filled many of their evenings – and not just on the weekends:

- *Tuesday, February 24, 1857*
... Went to sing in the evening.
House was full.
- *Wednesday, March 4, 1857*
... Went in the evening to a surprise party
at Joseph Clark's. Got home about 12 o'clock.

Throughout the diaries there are also signs that the pace of life was changing – that modern life was increasingly governed by the clock rather than the sun and the seasons:

- *Thursday, March 12, 1857*
Commenced to saw Mrs. Richardsons
wood. Father went to Boston. The 4^{3/4}
clock train would not stop, it was late.
- *Tuesday, July 21, 1857*
Very showery all day and warm. The
Engine broke in the Bald-hill and delayed
the train about two hours.

In 1857, when George Wadsworth began his diaries, the world of small farmers and artisans was rapidly giving way to a more structured industrial society, but the old ways were still very much in evidence. By the time he died in 1907, the transition to an industrial society was complete. The United States had become a very different place with transcontinental railroads, telephones, electric lights, automobiles, and powered flight.

Thanks to the efforts of Gail Lembo and the people who run the Town of Franklin's web site, we now have some additional insights into the nature of everyday life during that half-century of dramatic change.

Hit One Out of the Park

National Park Service Web Sites

Whether or not you live in New England, your school district's social studies curriculum probably includes the colonial American economy, maritime trade, and the American Industrial Revolution. No doubt, your textbooks cover these topics adequately enough to get students through state competency exams. But for teachers and students who want to do more than "just get by," the National Park Service web sites provide a broad range of supplementary resources.

The web sites are easy to access:

- Go to the National Park Service web site: www.nps.gov/parks.html

- At the bottom of the screen (in the Find a Park . . . section) click on State Map
- A map of the United States will appear. Click on a state to access the links to its National Park Service sites.

Here is a listing of National Historic Sites in New England that might be useful to teachers and students of economic history:

Blackstone River Valley National Heritage Corridor

www.nps.gov/blac/

"The Blackstone River Valley illustrates a major revolution in America's past: the Age of Industry. Evidence of the way people lived during this turning point in history can still be seen in the valley's villages, farms, cities and riverways – in a working landscape between Worcester, Massachusetts and Providence, Rhode Island. In 1790, American craftsmen built the first machines that successfully used waterpower to spin cotton. America's first factory, Slater Mill, was built on the banks of the Blackstone River in Pawtucket, RI. Here, industrial America was born. This revolutionary way of using water power and labor spread quickly throughout the valley and New England. It changed nearly everything."

— excerpt from web site introduction

- Web site highlights: A virtual tour of the Blackstone River Valley.

Boston African American National Historic Site

www.nps.gov/boaf/home.htm

Explores the long history of Boston's African-American community. It offers a number of possibilities for examining economic issues, from slavery to fears over economic competition to the successful effort by black soldiers in the Union Army's 54th Regiment to be paid the same as white soldiers.

- Web site highlights: A virtual tour, a timeline, biographies, and a link to the Museum of Afro American History.

Boston National Historical Park
www.nps.gov/bost/

Follows Boston's Freedom Trail and includes the Paul Revere House, Charlestown Navy Yard, and Faneuil Hall.

- Web site highlights: A Virtual Visitor Center, and a link to lesson plans in *Teaching with Historic Places*.

Frederick Law Olmsted National Historic Site
www.nps.gov/frla/home.htm

The home and design office of America's premier landscape architect and park designer, whose projects included New York's Central Park and Boston's Emerald Necklace. The web site offers possibilities for looking at the long-standing economic debate over how to balance commercial development and the preservation of green space.

- Web site highlights: A link to the Olmsted Archives.

Lowell National Historical Park
www.nps.gov/lowe/home.htm

Looks at the evolution of a city that has witnessed every aspect of the American Industrial Revolution – from harnessing water power to deindustrialization.

- Web site highlights: Links to Tsongas Center school programs, the American Textile History Museum, and the American Quilt Museum; PDF files of Park brochures including *Mills Girls* and *Lowell: The Industrial Innovation*.

New Bedford Whaling National Historic Park
www.nps.gov/nebe/home.htm

"New Bedford was the world capital of the whaling industry during the decades leading up to the Civil War. The whaling merchants of New Bedford operated a complex business network of finance, ship-building, barrel making, insurance, ship supply, and rope and sail making. The sponsors and agents of the ships earned huge profits and for a time New Bedford was considered to be the 'richest city on the world.'"

— excerpt from web site introduction

- Web site highlights: Whaler Ranger Kid Pages created by middle school students.

Salem Maritime National Historic Site
www.nps.gov/sama/

"Documents the development of the Atlantic triangular trade, the role of privateering during the Revolutionary War, and the international maritime trade, especially with the Far East, which established American economic independence after the Revolution."

— excerpt from web site introduction

- Web site highlights: A link to Essex National Heritage Area, which focuses on colonial settlement, maritime trade, and early industrialization in the textile and shoe industries.

Saugus Iron Works National Historic Site
www.nps.gov/sair

Saugus, Massachusetts, was the site of North America's first integrated ironworks (1646-68), and the National Historic Site offers visitors a close-up look at colonial-era industrial technology – seven operating water-wheels, power bellows, a trip hammer, and a rolling and slitting mill – housed in a cluster of reconstructed buildings.

- Web site highlights: Links to Essex National Heritage Area and *Teaching with Historic Places*.

Springfield Armory National Historic Site
www.nps.gov/spar

In 1794, President George Washington selected Springfield, Massachusetts, as the site for one of two federal armories (the other was Harpers Ferry, Virginia). During the 19th century, Springfield Armory had a major impact on the machine tool industry, and technological advances at the armory spilled over into the production of consumer goods – typewriters, locks, bicycles, and a variety of other products.

- Web site highlights: A history of Springfield Armory and a link to *Cyber Museum Visitor* with access to thousands of images of selected small arms and related objects.

Read All About It! ...Recent Federal Reserve Publications

A Day at the Fed

Published by Federal Reserve Bank of New York, 32 pages
A Day at the Fed takes readers through a typical day at the New York Fed and offers an overview of the Bank's operation as well as its role in the Federal Reserve System and the economy.

You and the Fed

Published by the Federal Reserve Bank of New York, 20 pages
Clear, concise descriptions of what the Federal Reserve System does and how it affects the economy – covers everything from monetary policy to supervision and regulation.

For a free copy of **A Day at the Fed** or **You and the Fed**, write to: Publications, Public Information Department, Federal Reserve Bank of New York, 33 Liberty Street, New York, NY 10045.

In Plain English: Making Sense of the Federal Reserve

Published by the Federal Reserve Bank of St. Louis, 17 pages
Lots of publications promise "plain English." This one lives up to its title. In addition, the graphics are attractive, and there is a ten-question "self test" at the end.

For a free copy of **In Plain English**, write to: Publications, Public Affairs Department, Federal Reserve Bank of St. Louis, Post Office Box 442, St. Louis, MO 63166; or phone (314) 444-8809.

Order Online

You can order all three of the above-mentioned publications online: www.ny.frb.org/pihome/. When the next screen appears, click on Public Information Catalog.

A Question of Economics

A Question of Economics focuses on questions related to economics in everyday life. Anyone can submit a question – students, teachers, anyone at all. And the question need not be complicated. In fact, the more it pertains to daily life, the better.

Send your questions to:

Robert Jabaily, Editor
The Ledger
Research Department
Federal Reserve Bank of Boston
P.O. Box 2076
Boston, MA 02106-2076

E-mail: robert.jabaily@bos.frb.org
FAX: (617) 973-3957

If we use your question, we'll send you a bag of shredded money for each person in your class (limit 35).

The question in this issue was submitted last year by Mrs. Smithman's sixth grade class at Lincoln School in Oak Park, Illinois.

“What does the term ‘hard currency’ mean?”

The term “hard currency” used to mean gold and silver coins. The coins were a widely trusted form of payment because they had intrinsic value; they were worth their weight in gold or silver. Whether they came from England or Spain did not really matter, as long as they were the correct weight and the gold or silver was sufficiently pure. Spanish pieces-of-eight, noted for the exceptional quality of their gold, were among the most highly prized coins in British North America.

Widespread use of paper money changed the definition of “hard currency” because a paper note had no intrinsic value. It was a piece of paper backed by gold or silver in the government's treasury. The paper itself wasn't worth anything unless people believed it was issued by a government that would honor its promise to redeem the paper for gold or silver. Countries with a stable government and lots of gold or silver in the treasury had the “hardest” currency.

But today no major country continues to back its paper money with gold or silver. The U. S. dollar, for example, is backed by the “full faith and credit” of the United States gov-

ernment. The gold in Fort Knox still has value as a government asset and a strategic metal, but the Treasury no longer redeems paper dollars for gold or silver. (The U.S. Treasury stopped paying out gold to individuals in 1933 and to foreign governments in 1971. The Treasury stopped redeeming Silver Certificates for silver dollars in 1964, but any Silver Certificates that remain in circulation are still worth their face value.)

These days “hard currency” refers to paper money that is widely accepted and easily exchanged for the currency of another country. American dollars, for example, are hard currency; Russian rubles are not.

That's not a moral judgment on either country, but in some ways it is an economic judgment. People around the globe accept the dollar as a “medium of exchange” and use it as a “store of value” because it is issued by a stable government that presides over a strong economy. International trade contracts and financial transactions are often written in dollars. And in countries where price inflation or political turmoil is a concern, people often hold dollars as a “store of value” because they believe the dollar will hold its value better than the local currency. According to Treasury Department estimates, more than \$450 billion worth of U. S. currency was held outside the United States in 1998.

Part of the reason for the high degree of international confidence in the dollar is the fact that the United States Treasury has never failed to honor U. S. currency. Going back to 1862, when the first “greenbacks” came off the presses at the Bureau of Engraving and Printing, every piece of U. S. currency continues to be legal tender.

By contrast, the Russian government recalled or revalued the ruble on more than one occasion during the 1990s. And the Russian economy has had more “downs” than “ups” during its transition from communism to a market system. All of which helps to explain why people are reluctant to accept rubles.

On the Money

George Washington was a Virginian, but the first paper money to bear his portrait had a New England connection. To be more precise, it had a connection to Westerly, Rhode Island, where The Washington Trust Company issued what are believed to be the first currency notes to bear his likeness. The notes went into circulation shortly after the bank opened for business in 1800. Among them was the three-dollar note pictured on this page.



Courtesy of The Washington Trust Company

During the period between the American Revolution and the Civil War, state-chartered banks routinely issued paper money. And since each bank designed its own notes, there was a wide variety of colors, sizes, and denominations in circulation. The Peoples' Bank of Paterson (New Jersey) issued a series of notes that included six-, seven-, eight-, and nine-dollar notes. The Commercial Bank of the City of New York defied superstition and threw caution to the wind with a thirteen-dollar bill that featured a clipper ship and a very attractive woman wearing nothing but a strategically placed wisp of clouds.

State bank notes began to fade from circulation in the 1860s when the federal government issued greenbacks and national bank notes to help finance the Civil War. But state-chartered banks continued to thrive. In fact Washington Trust, the fifth oldest bank in the United States, is preparing to celebrate its bicentennial in the year 2000.

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