Q=A

ISU/TONY CAMPBELL

Meet Networks scholar Ashley Cameron

Ashley Cameron, 21, from Rushville, Ind., is a junior at Indiana State University and a member of the first class of Networks scholars. Her major is finance and minor is insurance and risk management.

FAMILY
Father Richard Cameron; mother Diana Cameron; sister Shannon Brown, 26; sister Courtney Cameron, 22

PETS
Two dogs, Jack and Rosie

HIGH SCHOOL
Rushville Consolidated High School

HIGH SCHOOL ACTIVITIES, ACCOMPLISHMENTS
Varsity basketball and soccer all four years; National Honors Society; Big Brothers and Big Sisters; Leadership 20/20

CLUBS, ACTIVITIES INVOLVED IN AT INDIANA STATE UNIVERSITY
I am vice president of Alumni Affairs for Alpha Kappa Psi Professional Business Fraternity; co-coordinator for Networks Business Ethics Conference.

BEST THING ABOUT INDIANA STATE UNIVERSITY
I like that the professors really get to know me. They are very willing to help me when I have questions or problems. At larger schools, that one-on-one interaction is limited.

WHAT DO YOU LIKE BEST ABOUT BEING A NETWORKS SCHOLAR
The great opportunities that I've been able to take advantage of that the average student hasn't been given.

FAVORITE MOVIE
It's a tie: "Pretty Woman" and "Dirty Dancing."

FAVORITE MUSICIAN OR GROUP
Anything country.

FAVORITE FOOD
Grilled salmon. Really anything that doesn't eat me first.

BEST THING ABOUT COLLEGE LIFE SO FAR
The life-long friends I've made.

ONE THING MOST PEOPLE PROBABLY DON'T KNOW ABOUT YOU
I was in a chiropractic commercial.

WHAT YOU DO DURING YOUR FREE TIME
Free time? What's that? When I get a few spare minutes, I like to play basketball, visit with my family and friends, cook and sing.

COMMUNITY INVOLVEMENT ACTIVITIES
When I'm home, I lead singing at Ben Davis Creek Christian Church.

INTERNSHIPS OR INDUSTRY VISITS YOU'VE EXPERIENCED SO FAR
I am interning at the Indiana State Foundation while I am on campus. This summer I will be interning at State Farm Insurance.

ADVICE FOR OTHERS
Get involved in something you enjoy and take advantage of the opportunities you are given.

PERSON YOU MOST ADMIRE AND WHY
The person I admire most is my mother. She's always been very supportive of me and my decisions. She is the kind of person I want to emulate.

IF YOU COULD ASK ANYONE ANYTHING, WHAT WOULD IT BE
Wow, I'm going to have to think about that question ... I really don't know.

YOUR PLANS FOR YOUR FUTURE
I plan on graduating with honors. I want to pursue a career in either banking or financial management.

WHO IS YOUR FACULTY MENTOR WITHIN THE NETWORKS SCHOLARS PROGRAM AND HOW HAS YOUR MENTOR HELPED YOU SO FAR
Dr. Joseph Sanders is my faculty mentor. He is very supportive of me even when I switched my major from accounting to finance. He put in a good word for me to some of the people he knew from State Farm to help me get my internship.

WHO IS YOUR EXECUTIVE MENTOR AND HOW HAS THIS MENTOR HELPED YOU SO FAR
My executive mentor is Mike Alley, president and CEO of Patriot Investments/Electronic Evolutions. He is helping me build my professional network.

DESCRIBE YOUR TYPICAL DAY AT INDIANA STATE UNIVERSITY
• 6:55 a.m.: Get up and get ready for work.
• 8-11 a.m.: Work at Indiana State University Foundation.
• Break for lunch.
• 12:30-4:45 p.m.: Class.
• 5-7 p.m.: Networks meeting. After that, it's time for homework and studying.

SO FAR, WHAT HAS BEEN YOUR TOUGHEST CHALLENGE AT INDIANA STATE UNIVERSITY
My toughest challenge in my coursework at Indiana State has been trying to balance all the things I have to do and still have time for myself.

WHAT HAS BEEN THE MOST GRUELING PART OF YOUR OVERALL INDIANA STATE UNIVERSITY EXPERIENCE SO FAR?
Mastering time management. I've been very busy, so I have learned to prioritize and write down the tasks I need to accomplish.

— By Duane Brodt

GETTY IMAGES

ARE WE SAVING?

Saving has been a serious source of concern in recent months because of suggestions that the U.S. is not saving at all. But the new chairman of the Board of Governors of the Federal Reserve System has argued that interest rates are relatively low because saving is too large.

So which is it?

Or are both arguments questionable?

The saving efforts of the country are often assessed by looking at the personal saving rate. Personal saving is measured in the national income and product accounts and it is the difference between personal disposable income and personal consumption expenditure, personal taxes and consumer interest payments. Personal disposable income is a measure of income that households have available to spend or save, including transfer payments that are not earned as income and excluding income that is not received, for example, because of corporate income taxes or stockholder earnings that are retained and not distributed to the owners who earned them.

In the second and third quarters of 2005, personal saving was negative — a negative $21.5 billion and a negative $158.9 billion, respectively — meaning that households spent more than they received in disposable personal income.

This was the first time based on current records this has occurred since the Great Depression. (These data are from the Dec. 30, 2005, release of data by the Bureau of Economic Analysis at the U.S. Department of Commerce).

Negative saving is problematic if people wish their wealth and standard of living to grow. Productivity growth depends on financing the innovation and new capital goods, including plants, equipment and software. Without saving, investment and productivity growth cannot occur.

WHICH IS IT, ASKS NFI'S DR. JOHN TATOM: IS THE U.S. SAVING TOO MUCH, TOO LITTLE OR NOT AT ALL? THE FACT IS, OVERALL NATIONAL SAVING IS NEAR THE LOWEST LEVELS IN MORE THAN FIVE DECADES.

Negative saving is especially a concern because of the upcoming retirement of the baby boomer generation consisting of people who expect to receive large transfer payments from the nation's taxpayers to pay for their retirement. These payments can only be paid out of newly generated income or by transferring large amounts of existing income from workers.

There are at least two reasons why concern over this development may not be warranted.

The first is based on the track record of such developments. The second is that personal saving is a very poor indicator of the nation's saving.

Personal saving might not be a useful indicator for some purposes, even if it were an excellent indicator of national saving. For example, if one wanted to know whether future retirees were saving enough for retirement, one would have to focus on just this type of saving or on the group most concerned with future retirement. Looking at personal saving would not tell us, for example, whether the older half of the population is saving 50 percent of its income, increasing its wealth rapidly and preparing for its retirement while the other half is spending a like amount in excess of its income to engage in riotous living for a few years until it too will be forced to repay its debts and accumulate wealth for retirement.

In this example, total or personal saving would be zero. More importantly, no investment — or real asset accumulation — would take place so the nation's wealth would not change.

But it might be that those most affected by pending retirement are saving an excessively large amount relative to their current income. Economists focus on national totals of saving because this is what is available to finance a wealth increase and a rise in the future standard of living.

OVERALL NATIONAL SAVING IS NEAR THE LOWEST LEVELS in more than 50 years. It is understandable that U.S. saving is low because interest rates and expected returns from other investments in the U.S. appear to be relatively low. In such an environment, one might expect U.S. investors to invest more abroad to seek higher returns. The fact that the net flow of global financial investment continues to move toward the U.S. may suggest that investment opportunities abroad are shrinking relative to the U.S. This would be a serious problem for global growth.

THE BOTTOM LINE

Personal saving has actually turned negative twice before in recent years based on initial measures that subsequently were revised substantially. In late-1998 to mid-1999 and again from mid-2000 through early 2001, personal saving was reported to be negative but subsequent revisions in measures of income and consumer expenditure reversed this substantially so that today, we know that personal saving was not negative at the time. In 1998-99 GDP, personal consumption and disposable income were all revised up in annual revisions to GDP that took place a few quarters later but income was raised more than consumer expenditure, resulting in a rise in personal saving to a positive level.

The next time initial reports showed negative personal saving, the same reversal later occurred. In 2000-01, GDP and personal

Continued next page

consumption expenditures were revised down a few quarters later but personal disposable income was revised up substantially, resulting in a large swing in personal saving to a positive level. In the annual revisions to GDP that will occur in the summer of 2006, the record suggests that personal saving will be revised to a positive level as it has been in the only two times in almost 70 years when this has occurred.

Personal saving is an unreliable measure of the saving of households for a variety of other reasons. For example, a surge in consumer durable purchases, such as automobiles, depress personal saving even though, correctly measured, households may be foregoing consumption at the same time to accumulate assets. Personal saving also excludes capital gains so that it focuses only on wealth accumulation from current income or output.

Personal saving a small part of private saving

The second and more important reason for not being overly concerned with negative personal saving is that it is only part of private sector saving that is available to finance capital and wealth accumulation — and a small part at that.

Overall private saving includes retained corporate earnings, a sort of saving at the office instead of at home, and the cash flow from depreciation expenses that also can be used to finance new capital formation. Personal saving as a percent of GNI has always been a small part of overall gross private saving.

Private saving declined until mid-2001 but has generally been higher since.

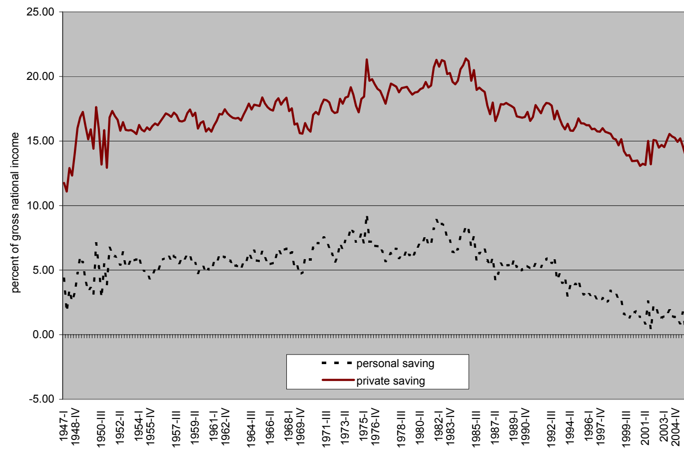
So does this mean that the country is saving enough?

Determining what is enough is always problematic. Certainly economic growth requires investment and investment must be financed. But economic growth in the past few years has not been weak compared to its own past or the anemic performance in much of the rest of the world.

Over the past three years, real GDP has expanded at a 3.5 percent annual rate, above the post-World War II average of 3.4.percent. According to the Organization of Cooperation and Development, growth in the Euro area has averaged only a 1.3 percent

PERSONAL VS. PRIVATE SAVING

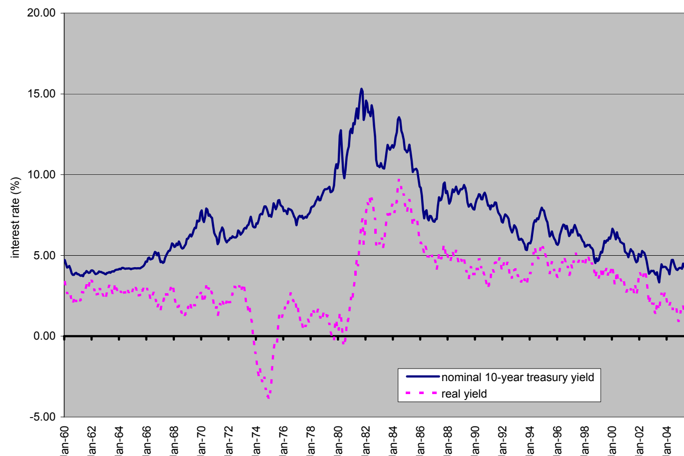
Personal saving has turned negative but it is a small part of private saving.



Source: Bureau of Economic Analysis NFI

REAL INTEREST RATES CONTINUE TO FALL

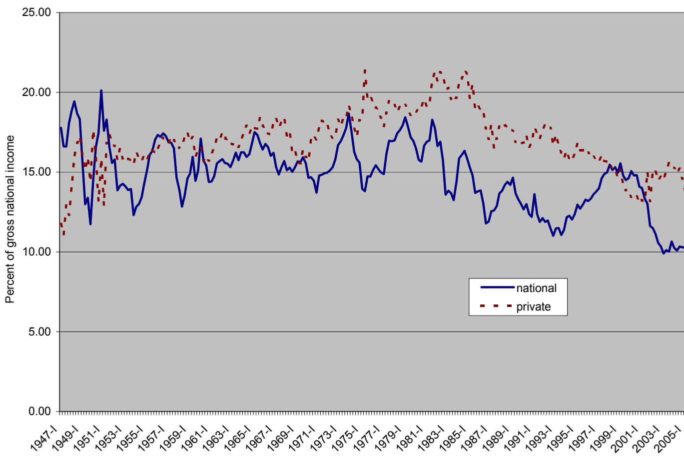
Long-term real interest rates declined in 2004-05.



Source: Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, NFI research NFI

SLOW BUT STEADY

National saving is low and fell sharply in 2001-02, reaching record lows.



Source: Bureau of Economic Analysis NFI

rate over the same period and Japan had a 2.2 percent rate. Thus, the U.S. economy does not appear to be exhibiting signs of deficient saving.

Personal vs. private saving

Another sign of deficient saving would be if the marketplace placed a premium on a shortage of saving by bidding up interest rates on scarce saving. Yet interest rates were declining as personal saving appeared to fall into negative territory. The real interest rate here is the difference between the yield on the 10-year treasury yield and expected inflation, measured by the rate of increase of the personal consumption expenditure deflator over the past 12 months.

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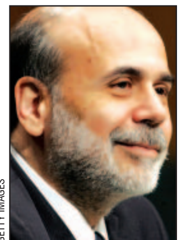
Greenspan

The decline in treasury yield is an example of former Federal Reserve Chairman Alan Greenspan's famous conundrum that long-term interest rates fell after the Federal Reserve began to tighten monetary policy in June 2004. They have continued to be lower since (see Alan Greenspan, "Testimony," Monetary Policy Report to Congress, Feb. 16, 2005).



GETTY IMAGES

Bernanke

Interest rates do not appear to signal deficient saving. The new chairman of the Federal Reserve, Ben Bernanke, has even used these interest rate developments to argue that saving must be excessive, pushing interest rates down (see Ben S. Bernanke, "The Global Saving Glut and the U.S. Current Account Deficit," Sandridge Lecture, Virginia Association of Economists, Richmond, Va., March 10, 2005; and Homer Jones Lecture, St. Louis, April 14, 2005).

Real interest rates continue fall

There has not been a rise in private saving that could push down interest rates in the U.S. But perhaps someone else is saving too much.

It is not the U.S. government, that could save and add to domestic financing of investment by running budget surpluses. Government has been running large and growing deficits from 2000 until early 2004. While budget deficits have been declining for more than a year, overall national saving — the total of private and government saving — has not risen relative to GNI. The adjusted national saving rate, which subtracts government investment spending from government and gross saving to more fully capture the budget deficit in both measures and to reflect national saving available for private sector investment, has remained at about 10 percent since 2001, the lowest level since 1948 despite increases and subsequent decreases in government budget deficits.

If the official measure of gross saving were used instead of the adjusted national saving measure here, there would be no difference in pattern.

At least in the U.S., national saving is not excessive and not so excessive as to push down interest rates.

The national saving rate has not declined since 2001 so the combined figure does not support the most recent round of concern that saving has fallen, either.

Another source of saving that is available to finance U.S. investment is foreign saving that is channeled through U.S. financial markets. Foreigners have found investment in the U.S. very attractive for most of the past 25 years, flooding capital markets with foreign saving and forcing the U.S. into a current account deficit, periodically with a rising value of the dollar.

Slow but steady

Since the U.S.'s current account deficit has been rising since 1992, reaching $780.6 billion in the past year (as of the third quarter of 2005), one might argue that foreigners are saving too much, with the excess spilling into the U.S. But the rest of the world has a lower income per capita than the U.S., especially emerging market economies.

It is impossible to catch up without saving and investing, whether at home or in the U.S. So there is something hypocritical about faulting poor foreign countries for saving more and more — if in fact they are actually doing so.

The problem with concluding that foreigners are saving more simply because the U.S.'s current account deficit is growing is that the foreign flow of capital into the U.S. is the difference between their overall national saving and pace of domestic capital formation or investment.

Thus, the U.S.'s current account can rise either because foreigners save more and invest in the U.S. or because foreigners invest less at home and make more of their unchanged saving available to U.S. financial markets.

> It makes a great deal of difference whether the U.S.'s current account deficit is rising because foreign saving is rising or because investment is declining. When global saving and investment are rising, wealth, income and the standard of living are likely to be rising. But when investment is declining, these increases are in doubt — or at least more limited.

Either way, the current account rises or foreigners are making more of their saving available to the U.S. But they may be saving more overall or they may be investing less at home.

It makes a great deal of difference whether the U.S.'s current account deficit is rising because foreign saving is rising or because investment is declining. When global saving and investment are rising, wealth, income and the standard of living are likely to be rising. But when investment is declining, these increases are in doubt — or at least more limited.

Weak investment suggests that the return to new investments is depressed, perhaps because of increased barriers such as taxation or risk.

While this evidence suggests that the U.S. economy is performing well, the long-term consequences of weak global investment are ominous. Weak investment and low returns to capital threaten the prospects for innovation and growth.

There is one good reason why foreign saving might have accelerated, investment might have weakened and interest rates were depressed in 2004-05. That factor is the explosion in oil and energy prices in 2002-03 that began in earnest in 2004. Through the mid-1970s through the early-1980s, when oil and energy prices rose more and faster, real interests fell sharply and held down nominal interest rates.

Eventually, capital stocks and wealth will adjust to higher oil prices and investment and real returns to capital will return to normal higher levels.

The extra saving generated by heightened oil trade and capital flows from oil-exporting states will dissipate into greater imports into those countries. Firms will find that the higher cost of operating capital equipment and structures will be offset by lower real wage costs and higher gross returns to capital, providing a renewed incentive to resume higher investment. Even in the earlier episodes, it was not clear whether the dominant problem in world capital market was the recycling of "petrodollars," the large accumulation of profits of oil exporters or a decline in the real return to capital from lowered productivity associated with capital obsolescence and higher operating costs of capital goods.

It is hard to argue that the U.S. has recently reduced or boosted its saving too much.

The personal saving rate has recently become negative.

But for a variety of reasons this is not a reason to be concerned that the U.S. is saving too little.

It is also unlikely that world saving is too high, either.

While foreigners are investing increasing amounts in the U.S., this does not appear to reflect excessive or even higher saving abroad. Instead, global capital formation appears to be relatively weak, suggesting that the global return to capital and global growth are at risk.

It is clear that overall national saving is near the lowest levels in more than 50 years, however. This has been the case for three years so nothing has really changed in this regard.

It may be somewhat understandable that U.S. saving is low because interest rates and expected returns from other investments in the U.S. appear to be relatively low.

In such an environment, one might expect U.S. investors to invest more abroad to seek higher returns.

The fact that the net flow of global financial investment continues to move toward the U.S. may suggest that investment opportunities abroad are shrinking relative to the U.S. This would be a serious problem for global growth.

A continuing rapid expansion in the U.S. could boost both U.S. and global investment and raise overall returns to capital globally. But a rebound in investment opportunities abroad would be as important, if not more so, for world growth prospects.

Tatom is director of research for Networks Financial Institute: john.tatom@isunetworks.org

FOR MORE

For more analysis and debate about saving in the U.S. and elsewhere:

- **de Serres, Alain and Florian Pelgrin, "The Decline in Private Saving Rates in the 1990s in OECD Countries: How Much Can Be Explained by Non-Wealth Determinants?" OECD Economics Department Working Paper No. 344, December 2002.**
- **Edwards, S. (1995), "Why Are Saving Rates So Different Across Countries: An International Comparative Analysis," NBER Working Paper No. 5097.**
- **Lusardia, A., J. Skinner and S. Venti (2001), "Saving Puzzles and Saving Policies in the U.S.," NBER Working Paper No. 8237.**

Geographic evidence (exists) that payday lenders do aggressively target American military personnel, irrespective of most forms of legal regulation. (There are) high concentrations of payday lending businesses in counties, Zip codes and neighborhoods in close proximity to military bases.

— "Predatory Lending and the Military: The Law and Geography of Payday Loans in Military Towns," by Christopher Lewis Peterson and Steven M. Graves, March 2005

papers.ssrn.com/sol3/papers.cfm?abstract_id=694141

WHILE OUR TROOPS ARE PROTECTING US

WHO'S FINANCIALLY

BY MARTHA HENN McCORMICK martha.mccormick@isunetworks.org

GETTY IMAGES

PROTECTING THEM?

WITH THE NATION'S MILITARY PERSONNEL UNDER BURGEONING STRESS DUE TO THE DEMANDS OF THE CONFLICT IN IRAQ AND ONGOING MILITARY ACTION IN AFGHANISTAN, THE WELLBEING OF MILITARY MEN AND WOMEN HAS ATTRACTED GREATER ATTENTION THAN NORMAL.

The primary concern centers on increased mobilization of National Guard and Reserve units that have relatively little experience with prior mobilization. On a practical level, the most difficult challenge has been stress related to diminished personal security and disruption of family life. Mobilization-related pressures on families and individuals have created personal financial adjustments and necessitated change.

Under the best of new circumstances, financial decisions and altered circumstances would stress active service personnel. Add to that stress the fact that many soldiers are relatively young and inexperienced and the need for financial literacy education becomes even more acute.

So does the need for financial protections for military men and women.

The military's current emphasis on financial education — and the fact that Congress is revisiting financial protections for the military in successive pieces of legislation — suggests that financial literacy education for military personnel remains a grave challenge.

Military leaders and others are concerned about the level of financial knowledge their troops have. For example, a major study in March 2005 by Christopher Lewis Peterson at University of Florida's Levin College of Law and Steven M. Graves at California State University Northridge titled "Predatory Lending and the Military: The Law and Geography of Payday Loans in Military Towns," argues that U.S. military personnel are becoming deeply indebted to storefront lenders that charge high interest and fees. The study found that payday lenders aggressively target American military personnel despite most forms of regulation and that payday lending businesses are popular in and around communities located to military bases.

In contrast, organizations such as the Navy-Marine Corps Relief Society offer both financial counseling and financial loans with little to no interest and extended payment plans to military personnel. The Department of Defense has also launched programs designed to improve financial literacy among the ranks. Its Financial Readiness Campaign is intended to help military personnel and their families become more knowledgeable about personal finances and money management. Military Sentinel is a project cosponsored by the DOD and the Federal Trade Commission and educates military personnel and their families about consumer protections available to them. More recently, the DOD has partnered with the Federal Deposit Insurance Corp. to use the FDIC's Money Smart financial education program at more than 3,000 military installations globally to educate more than 200,000 on basic financial literacy issues.

Because military families whose breadwinners may be deployed face financial strains, some businesses take advantage of those strains to perpetrate scams or sell financial products to military families under terms that are unfavorable and unfair. Military members sometimes become the victims of fraud, ironically, because the Uniform Code of Military Justice is used against them as a tool of coercion or intimidation.

For example, article 123a of the UCMJ directs against making any purchase or payment arrangement without sufficient funds to cover it. The National Consumer Law Center cites cases of fraudulent payment contracts that cite UCMJ articles and threaten confinement, forfeiture and discharge for failure to honor debts. NCLC argues this practice is in violation of the Unfair and Deceptive Acts and Practices standards and should be reported to the Federal Trade Commission.

Clearly, in addition to educating military personnel about financial management, Congress sees a need to attack fraudulent industry practices and has been concerned with legislating financial regulations and protections to require ethical practices from the financial services industry toward military personnel.

In May of 2003, NCLC released "In Harm's Way — At Home: Consumer Scams and the Direct Targeting of America's Military and Veterans." The study details widespread targeting of the military because of youth, a lack of financial sophistication, steady U.S. government paychecks, immunity to layoffs and good-conduct codes urging military personnel to maintain orderly finances.

Unscrupulous financial predators cluster geographically around military bases and advertise heavily to the military. They use affinity marketing techniques, relying on military-sounding names and official-looking insignias. They also target veterans with illegal benefits buyout scams.

The accumulated evidence of abuses makes it clear that financial protections for members of the military are necessary. Though many exist already, Congress and state governments are working to reinforce existing or legislate new protections into law.

NFI plans to be part of potential solutions, engage in the national debate and interest on this topic of adult financial literacy generally and further the specific cause of the financial education of military personnel.

A look at legislation

A survey of passed, pending or considered federal legislation to financially protect military personnel since 2001 reveals the following:

The National Defense Authorization Act for fiscal year 2006 that became public law 109-163 on Jan. 6 contains amendments authored by U.S. Sen. Evan Bayh, D-Ind., that protect military families facing foreclosure, eviction or loan default due to financial hardship because of military service.

These amendments mandate a DOD educational outreach program for mobilized military families and require information on military families' rights on written notices of foreclosure so families are aware of their protected status.

Congress has extended insurance coverage for military families through Servicemembers' Group Life Insurance.

Congress passed into law the U.S. Service Members Civil Relief Act, providing protections regarding automobile and residential leases, loans, security deposits, evictions and foreclosures, installment contracts, credit card and mortgage interest rates and income tax payments.

Income protections have been introduced but not passed into law, including measures to provide increases to reserve military members whose military compensation does not match their nonmilitary pay rates or to promise tax credits to employers who continue to pay salaries to activated Guard and Reserve employees.

Congress has additionally considered but not passed into law provisions that increase or improve survivor benefits, college education benefits for children and medical coverage. To regulate unfair practices, Congress has considered but not passed legislation extending anti-predatory lending practices and authorizing state insurance regulators to track and ban agents and companies selling prohibited insurance products and high-fee contractual plan mutual funds.

McCormick is a research coordinator at Networks Financial Institute: martha.mccormick@isunetworks.org

In the Indiana 114th General Assembly, the Military Family Relief Fund Bill to provide assistance to families of Indiana National Guard or Reserve members called to active duty since Sept. 11, 2001, was passed by the Senate in January 2006 and was under consideration in the House later that month. Other bills introduced in the session promote the military service homebuyer program and family military employment leave.

NFI/DUANE BRODT

Dr. Thomas R. Saving (above), a featured panelist at NFI's Financial Forum Series in 2005 debating Social Security reform, has signed on as a senior fellow with NFI's research department. Saving is director of the Private Enterprise Research Center at Texas A&M University and a university distinguished professor of economics. His research has covered the areas of antitrust and monetary economics, health economics, the theory of the banking firm and the general theory of the firm and markets.

Experienced senior fellows join NFI

Group includes former Federal Reserve VP and banking economics advisor, former Clinton-Bush Social Security advisor, esteemed Baylor University professor

BY MARTHA HENN McCORMICK

Under the leadership of Director of Research Dr. John A. Tatom, NFI welcomes its initial group of senior fellows. All have agreed to undertake original, extensive research projects in their respective areas of expertise for NFI.

Dr. R. Alton Gilbert is an economist emeritus and was previously vice president and banking economics advisor at the Federal Reserve Bank of St. Louis. Originally from Galveston and educated in Texas, he joined the St. Louis Federal Reserve research department in 1970 and was promoted to vice president in 1994. His major research interests include the effects of regulation on financial institutions, specifically microeconomic effects and implications for macroeconomic policies.

Gilbert has been published widely, including articles in the Journal of Financial Services Research, the Journal of Banking and Finance, the Journal of Economics and Business and Explorations in Economic History. He received his Ph.D. in economics from Texas A&M University.

His policy brief for NFI concerns proposed changes in Basel I capital requirements for competition between large and small banks. Basel I and Basel II are international bank supervision agreements, named after the city in Switzerland where they were negotiated. The Office of the Comptroller of the Currency of the U.S. Treasury Department, the Federal Reserve System Board of Governors, the Federal Deposit Insurance Corp. and the Office of Thrift Supervision recently announced a call for comments in response to a joint advance notice of proposed rulemaking regarding revisions to the Basel I existing risk-based capital framework to enhance its risk sensitivity. Gilbert's policy brief on the implications of the proposed changes was submitted by NFI in response to the call for comments on the proposed rule change. The policy brief investigates whether changes in Basel I capital requirements proposed in October 2005 would mitigate competitive inequalities created by the implementation of Basel II.

Dr. Joel M. Guttman is currently serving as an associate professor in the department of economics at Bar-Ilan University. Previously he was a visiting professor at Helsinki School of Economics.

Gilbert

Guttman

His research areas include evolution of trust and cooperation, economic growth and conflict (internal and external), public economics, applied game theory and defense economics. He has published numerous articles in scholarly journals including the European Journal of Political Economy, the Journal of Public Economics and the Economic Journal.

Guttman received his Ph.D. in economics from University of Chicago. His fellowship will focus on the link between the financial sector and economic development. He has proposed to complete policy briefs on the determinants of trust and the effects of trust on the working of financial markets in developing countries; in the relationship between trust and social capital required for micro-credit systems to operate; and on the impact the development of financial markets has had on fertility decisions in developing countries.

Dr. Thomas R. Saving is director of the Private Enterprise Research Center at Texas A&M University. A university distinguished professor of economics, he also holds the Jeff Montgomery Professorship in Economics.

Continued next page

Saving's research has covered the areas of antitrust and monetary economics, health economics, the theory of the banking firm and the general theory of the firm and markets.

He has served as both a referee and a member of the editorial board of major U.S. economics journals and is currently co-editor of Economic Inquiry. He has authored many articles covering the breadth of his academic interests and two influential books on monetary theory.

His current research emphasis is on the benefit of markets in solving pressing issues in health care. Saving has authored numerous public policy articles. He has been elected president of the Western Economics Association, president of the Southern Economics Association and president of the Association of Private Enterprise Education.

After receiving his Ph.D. in economics from University of Chicago in 1960, Saving served on the faculty at University of Washington and later Michigan State University. He became a professor of economics at Texas A&M in 1968. He served as chairman of the department of economics at Texas A&M from 1985-1991 and was appointed to his current position as director of the Private Enterprise Research Center in 1991.

In 2000, President Clinton appointed Saving to the Board of Trustees of the Social Security and Medicare Trust Funds.

In May 2001, he was appointed by President Bush to the President's Commission to Strengthen Social Security.

Saving addressed Social Security reform issues during NFI's Financial Forum Series in 2005 and his policy brief "Social Security reform: Can it secure the rights to your pension benefits?" is available on NFI's website.

Dr. David VanHoose earned his Ph.D. at the University of North Carolina at Chapel Hill and is currently the Herman W. Lay Professor of Private Enterprise at the Hankamer School of Business at Baylor University.

He has published articles in such professional journals as the Quarterly Journal of Economics; the International Economic Review; the Southern Economic Journal; the Journal of Money, Credit and Banking; Economic Inquiry; and the Scandinavian Journal of Economics.

VanHoose

VanHoose served as a visiting economist at the Board of Governors of the Federal Reserve System in 1988 and as a visiting scholar at the Federal Reserve Bank of Kansas City in 1989. In 1991, he received the Iddo Sarnat Award for outstanding article in the Journal of Banking and Finance.

In 1995 and 2000, VanHoose received the Atlantic Economic Journal's best article award.

He is an editor of the Journal of Economics and Business and serves on the editorial boards of Open Economies Review and the Atlantic Economic Journal. VanHoose is also the author of "E-Commerce Economics" and co-author of "International Monetary and Financial Economics and Global Economic Issues and Policies."

For NFI, VanHoose will undertake a working paper on capital requirements and bank safety and soundness, evaluating the range of conceptual approaches to the problem and offering recommendations for future research.

He also will write a policy brief on bank capital requirements and monitoring and loan policy, considering how capital requirements affect banking systems containing diverse banks.

As projects continue to demand expert research and analysis, NFI will be pleased to welcome current and additional senior fellows.

For more about NFI's senior fellows program and how to apply, contact Dr. John Tatom at 800.603.7113 or john.tatom@isunetworks.org or visit NFI online.

Possible Basel 1 changes focus of brief

Dr. R. Alton Gilbert has completed a policy brief for NFI that concerns proposed changes in Basel I capital requirements for competition between large and small banks. Basel I and Basel II are international bank supervision agreements.

In October 2005, the Office of the Comptroller of the Currency of the U.S. Treasury Department, the Federal Reserve System Board of Governors, the Federal Deposit Insurance Corp. and the Office of Thrift Supervision issued a joint advance notice of proposed rulemaking regarding revisions to the Basel I existing risk-based capital framework to enhance its risk sensitivity.

The agencies solicited comments on proposed modifications to their risk-based capital standards. Gilbert's policy brief titled "Implications of Proposed Changes in Basel I Capital Requirements for competition between large and small banks" is available on NFI's website.

NEW RESEARCH PROJECTS

2 national experts eye GSEs in NFI projects

Continuing an interest it has pursued since it held a Regulatory Reform Summit in 2004 in Washington, D.C., NFI is sponsoring research projects on government-sponsored enterprises by two prominent national experts.

Dwight M. Jaffee and **Peter J. Wallison** are scheduled to release their studies in March. Jaffee evaluates proposals to limit the size of the retained mortgage portfolios held by Fannie Mae and Freddie Mac. Starting with a review of data on how both operate and on the role they play within the U.S. mortgage market, Jaffee discusses what sources will replace Fannie Mae and Freddie Mac as mortgage investors, how the interest rate risk will be covered after it is removed from both their portfolios and the likely impact of the change on U.S. mortgage interest rates. Jaffee endorses legislation that will limit the Fannie Mae and Freddie Mac retained mortgage portfolios. Wallison's paper focuses on the dangers of establishing GSEs with perpetual life and the lessons learned from trying to control Fannie Mae and Freddie Mac. Wallison considers the importance of legislative provisions that restricts or reduces GSEs' portfolios of mortgages and mortgage-backed securities and alternatives available under current law for reducing the risks associated with the GSEs' portfolios, emphasizing important elements of legislation and lessons to be learned from the experience of trying to control GSEs. Visit the research publications area of NFI's website to access these papers.

Jaffee is the Willis Booth Professor of Banking, Finance and Real Estate at the Haas School of Business at University of California at Berkeley where has taught since 1991. He previously taught in the economics department of Princeton University. Jaffee is chairman and member of the

Haas Real Estate group, co-chair of the Fisher Center for Real Estate and Urban Economics and member of the Haas Finance Group. His areas of research include real estate markets and real estate finance, financial institutions and lending activity; international trade and the California economy; and catastrophe insurance. He is the author of six monographs and numerous journal articles. He was formerly a visiting scholar at the Federal Reserve Bank of San Francisco. He also served in advisory roles for the World Bank and the Board of Governors among others. He received his doctorate from the Massachusetts Institute of Technology in 1968.

Wallison is a resident fellow with the American Enterprise Institute for Public Policy Research and co-directs AEI's program on financial market deregulation. Prior to AEI, he practiced banking and corporate and financial law at Gibson Dunn and Crutcher in Washington, D.C., and New York. Wallison has held a number of government positions, including general counsel of the U.S. Treasury Department, general counsel to the Depository Institutions Deregulation Committee and White House counsel to President Ronald Reagan. He served first as special assistant to New York Gov. Nelson A. Rockefeller and later as counsel to Rockefeller when he was vice president. Wallison is admitted to practice before the courts of the District of Columbia and is a member of the Bar Association of the city of New York and the District of Columbia Bar Association. He received his law degree from Harvard Law School.

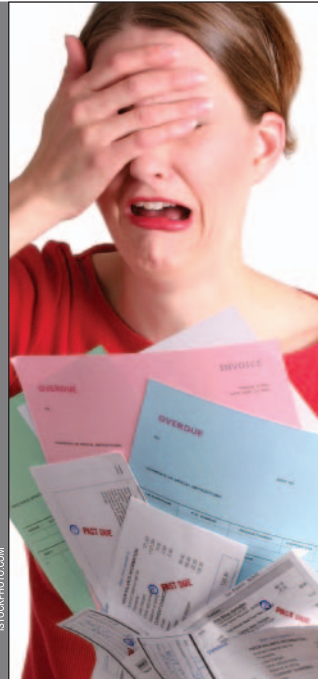
Wallison is the author of "Ronald Reagan: The Power of Conviction and the Success of His Presidency" and "Back From the Brink," a proposal for a private deposit insurance system. He is co-author of "Nationalizing Mortgage Risk: The Growth of Fannie Mae and Freddie Mac," and "The GAAP Gap: Corporate Disclosure in the Internet Age," both published by AEI. He is a frequent contributor to the opinion pages of New York Times, Wall Street Journal and Financial Times.

'CAVEAT INVESTOR' ARTICLE IN THE ECONOMIST GIVES THUMBS UP TO MOVE TO INDIVIDUALLY-MANAGED RETIREMENT ACCOUNTS

The Jan. 14, 2006, issue of The Economist features an article titled "Caveat Investor" that investigates the move away from corporate-defined benefit pension programs to individually-managed retirement accounts. The article looks favorably upon the shift to individual choice and responsibility but does beg the question, how much do people due to take on these responsibilities know about basic financial concepts? Statistics cited paint an alarming picture of personal financial literacy skills of adults in several developed nations, considers the implications of financial planning ignorance for governments that may have to bail out ill-prepared retirees and encourages a range of financial education projects and programs for citizens of all ages. Regarding worker reluctance to take advantage of financial seminars in the workplace, the article quotes financial literacy expert Dr. Annamaria Lusardi, a Dartmouth economist who will speak at NFI's Adult Financial Literacy Conference on March 28 (story, page 28) in Indianapolis. Lusardi also serves as a member of NFI's Financial Literacy Advisory Committee.

LITERACY STUDY: COLLEGE GRADS HEADING OUT INTO WORLD WITH POOR FINANCIAL LITERACY SKILLS, ABILITIES

In January, the Wall Street Journal and other publications issued news of a literacy study of graduating college students conducted by the American Institutes for Research and funded by the Pew Charitable Trusts. Several aspects of the study titled "The National Survey of America's College Students" are remarkable and also applicable to the mission of NFI. The study defines literacy broadly as complex, real-life tasks such as analyzing news stories or prose generally, understanding documents and having necessary math skills for managing checkbooks and calculating restaurant tips. Graduating college students fall short in such basic financial literacy skills as being able to compare the interest rates and annual fees of a variety of credit card offers to determine which offer best suits their consumer interests. Says Dr. Stephane Baldi, director of AIR's study: "The surprisingly weak quantitative literacy ability of many college students is troubling. A knowledgeable workforce is vital to cope with the increasing demands of the global marketplace." Students in two- and four-year colleges had the worst rates in the area of quantitative literacy — their prose and document skills outstrip quantitative skills. Alarmingly, though the skills of these college students are lacking, they outstrip the skills of adults across the nation as documented in the National Assessment of Adult Literacy conducted by the National Center for Education Statistics and tabulated and reported by AIR. NSACS results are intended to provide guidance on student literacy gaps for higher education administrators and to address workforce readiness issues.



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RESEARCH

POLICY BRIEF BY FREDDIE MAC ECONOMIST CREWS CUTTS ADDRESSES RISING FEARS THAT RISING INTEREST RATES WILL SLOW HOUSING GROWTH

In January, the Diane Rehm Show on public radio network aired a segment on the U.S. housing market. The booming real estate market, fueled by low interest rates, has helped sustain strong economic growth the past five years. Guests examined fears that rising interest rates will slow housing growth and included Dean Baker, co-director of the Center for Economic and Policy Research and co-author of "Social Security: The Phony Crisis;" Amy Crews Cutts, a deputy chief economist at Freddie Mac; and Paul Krugman, an economics professor at Princeton University and columnist for the New York Times. Crews Cutts was a presenter at an NFI forum in 2005 examining whether a housing bubble exists in the U.S. Her policy brief for NFI was co-authored with Frank Nothaft, chief economist at Freddie Mac and is posted on NFI's website. This brief examines the potential decline in housing prices by forecasting the likely change in prices under a variety of models. In all cases, the authors find the predicted worst-case outcomes to be much less dire than the Doomsday predictions reported in the mainstream press and elsewhere. During her interview on the Diane Rehm Show, Crews Cutts dissented from the cautions that Baker and Krugman issued of a lack of sustainability in housing prices.

NFI/DUANE BRODT

Crews Cutts

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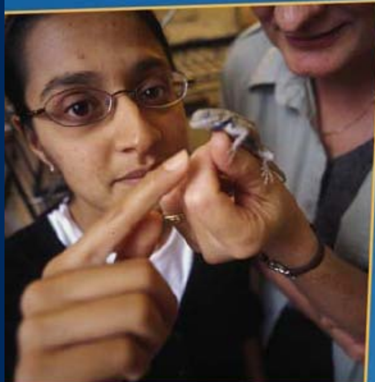

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