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I plan to talk to you about saving as a former economist and current policymaker. And, as a minor saver. And, as a regular purchaser—through payroll deduction—of savings bonds.

If I weren't a regular purchaser of savings bonds, I would have declined your kind invitation to speak today. I would have felt phony.

Here is a picture of my motivation: Candace and Ryan. They call me "Big Daddy." I get a bond every other week at payday in the name of one of my sons—Candace and Ryan's dad. He's "Little Daddy." The idea is for my son to use the special education benefits associated with savings bonds for Candace and Ryan's college.

The Dallas Fed recently published this booklet called *Building Wealth: A Beginner's Guide to Securing Your Financial Future*. It's for beginners. It talks about saving and investing and budgeting.

For me, a family budget is like dieting by eating sensibly and counting calories. It's a good idea if you can do it. It's the best way. But I could never do it. I'm not disciplined enough. I have to have a gimmick. Protein in the morning. Carbs at night.

That doesn't do the trick, however, so I have to add an hour of exercise a day. I pay that price for my lack of discipline. I used to think lack of discipline was a character flaw. But modern science has let me off the hook. It's not my fault. It's genetic. And I seem to have come from the shallow end of the gene pool, as the Austin Lounge Lizards say.

Saving and financial management to me is a lot like dieting. I could never do it regularly if I couldn't do it automatically. I could never stick to a budget.

So, my approach—my weak-gene approach—is to sign up for payroll deduction for savings bonds, 401(k), etc., and try to forget about it. Out of sight, out of mind. And let the power of compound interest work its magic.

Savings bonds are probably the most convenient way to save through payroll deduction. All employers provide it. If I'm wrong about that, shame on them.

As U.S. government bonds, savings bonds are safe. They have no credit risk. Since they don't trade on the market, they have no market risk either. They will always be worth what you paid for them and more.

They are perfect for grandparents. You can give and get credit for a $100 bond, but you don't have to pay $100 for it. Such a deal.

I still remember my first bonds as a kiddo. They were $25 bonds that cost $18.75. I think one service club gave me a $25 bond as a college scholarship.

Not all that long ago, all these advantages of convenience and safety had to be balanced against the disadvantages of low yield. A few years ago, I felt like I was making a sacrifice when I bought savings bonds—since the stock market was on such a roll. But the past year of stock market correction has reminded us once again that high returns go with high risk.

As they say, if something is too good to be true, it probably is. Easy come, easy go.

Savings bonds are plain vanilla. But remember, vanilla still outsells the other 31 flavors. Over the past year, plain vanilla—riskless—savings bonds have outperformed the Nasdaq, the Dow and the S&P 500. So has cash in the mattress, for that matter, but savings bonds have a higher yield than cash and don't put as big a lump in your

mattress.

The stock market boom of the past few years—especially since 1995—has had a huge negative impact on consumer saving. Feeling flush with paper profits, consumers reduced their saving out of current income to zero and below.

This is not a good thing.

Under current fragile economic circumstances, it would not be good for the economy if consumers were to get the saving religion too abruptly, but over time, it is imperative that a significant positive personal saving rate be restored.

Let me bore you a bit longer and play economist. The reason saving is important to the individual or the family is obvious and doesn't need repeating. But the reason saving is important for the nation's economy may be less obvious.

The bottom line is that without saving you can't have the investment that makes the economy grow. The more saving you have—in a healthy economy—the more investment you can have and the faster we will grow and the faster and higher our standard of living will rise.

Imagine a closed economy without government—but don't get your hopes up. In such an economy, we produce so much a year and consume so much. What is not consumed is saved—and made available for investment. In such an economy, saving and investment would be equal, *ex post*.

When you introduce government, the government—as well as the private sector—is a potential saver or dis-saver. If the government runs a budget surplus, it's a net saver. If it runs a deficit, it is a net dis-saver. In such an economy, investment is limited to the net saving of the government and the private sector together.

Now introduce international trade and investment into the picture. Exports are a net addition to spending, like investment and government spending. Imports are a net subtraction from spending, like saving and taxes. So, in this open mixed economy, investment is limited by the net saving of the private sector, plus the government sector, plus the international trade sector.

Now, one last complication. Private-sector saving in my example is made up not only of personal saving but of business saving—depreciation and retained earnings. Now, for years the U.S. economy featured positive private saving (both personal and business) and negative government saving, as represented by the large, chronic budget deficits. Net saving from these sources was not sufficient to finance our domestic investment. The difference was made up by an inflow of capital from abroad—the mirror image of our international trade deficit. In other words, we've had to supplement domestic saving with foreign saving to finance our domestic investment.

Of course, this has increased our net debtor position internationally and has given foreigners more and more claims on future U.S. goods and assets. This is not necessarily bad, but at some point it may become unsustainable.

Then it will be bad.

The big change in the last couple of years has been that private personal saving has declined to zero while business saving continued reasonably strong. This represents a net reduction in domestic, private-sector saving. Fortunately, this reduction has been offset in part by a swing in the federal budget from deficit to surplus. This means the federal government has swung from being a negative saver to a positive saver.

But still, the combination of U.S. private and government saving together has remained inadequate to finance U.S. investment. So the difference continues to be made up by foreign saving in the form of a capital inflow. Again—let me repeat—there is nothing wrong with that as long as it is sustainable. But it could become unsustainable rather abruptly, with dire consequences.

Wile E. Coyote might look down.

That's what happened to the Nasdaq, you know. Wile E. Coyote overran the cliff and kept running. When he finally

looked down, he saw all foam and no beer, so he fell. Actually, there was a good bit of beer there, but it did have too big a head on it.

I apologize for this little lecture on national saving. If you slept through it, the bottom line is this: over time we need more domestic saving in this economy. We need it in a macroeconomic sense so we can finance our investment domestically without overreliance on foreign capital. And we need it from a microeconomic, or family, viewpoint because most of us are simply not saving enough to finance our retirement and old age—not to mention college for the kiddos.

This point should be obvious to everyone, but apparently it isn't. Maybe everyone is counting on winning the lottery. Maybe everyone will.

But if not, they need to be taking charge of their financial lives—slowly and carefully. A savings bond campaign is a good vehicle to spread the gospel of saving. And savings bonds are the easiest way—and for many the best way—to start.

Good luck in your campaign. You are doing the Lord's work.