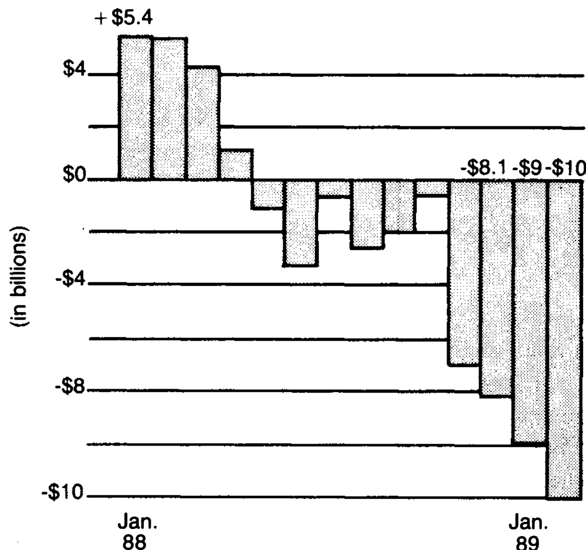
Root: No, perhaps 10%, but no more than 5-10%. That is clear from the fact that we [S&Ls] have about 100 million accounts, with a total of $1 trillion in deposits.

EIR: You mean that $1 trillion divided by 100 million accounts is an average of more like $10,000 per account, rather than $100,000 per account?
Root: Yes, these are largely domestic and smaller individual depositors. But the international depositors are what I'm worried about.

EIR: Yes. You mean that the 5-10% of larger accounts would be the ones to begin a deposit outflow?
Root: There could be an outflow from not only S&Ls, if they commingle the funds, but from all sorts of institutions. This is not good policy.

S&L money flow

Monthly net change in 1988-89



Source: Federal Home Loan Bank Board

Savings: today's economic Rosetta stone

by Stuart D. Root

The article excerpted here was first published in the Federal Home Loan Bank Board Journal *in 1987. Mr. Root was at the time a member of the law firm of Cadwalader, Wickersham, and Taft, New York and Washington, D.C., counsel to the Federal Home Loan Mortgage Corporation.*

The time has come to retrain our sights on savings, and on the latent power of this resource to answer some pressing economic concerns.

Heading the list of concerns is a less than desirable rate of industrial production. It was one of the last indexes to move upward as the nation went into economic recovery, and it now has leveled at a rather unsatisfactory plateau at best or may even drop at worst. High interest rates have attracted foreign funds and strengthened the value of the dollar, leading to an upsurge of imports at the expense of domestic industries. Internationally, the United States has become a debtor nation, with no end to the debt in sight. There is extreme weakness in the farming and raw materials sectors of the economy. Calls for protection of ailing industries through raised tariffs, restrictive quotas, or other measures are becoming stronger every day. The high interest rates bedevil farmers, while state and local governments defer the maintenance or replacement of infrastructure in their intensely developed regions and cities.

Financial institutions wrestle with assets, booked during heady inflationary times, that have now turned sour, such as oil and gas loans, real estate loans and direct investments, and, for large commercial banks, loans to sovereign nations and their companies. The strains in today's financial system—highlighted by the problems of very large institutions plus privately insured thrifts in Ohio and Maryland, and the collapse of some government securities dealers—are evident in numerous bank and thrift insolvencies. Too many savings institutions are still attempting to grow out of their problems through borrowings of "hot" money that are used to finance high-risk assets.

Monetary policy has been managed with some success. But even Zeus would be constrained in responding to the current array of U.S. economic vulnerabilities, any one of which could spark intense inflationary pressures.

Return to saving

But today the United States imports savings, much to the dismay of her allies and the alarm of financial regulators. Economic analyses are presented to the public with nary a nod to the difference that savings could make. Saving is indeed the forgotten economic element—yet it could be, if rediscovered, the Rosetta stone of our economic puzzlements.

Meanwhile, our major trading partner, Japan, continues at home to emphasize and reemphasize personal saving. This allows Japan to have a very high per capita national debt while interest rates are about one-half U.S. rates, providing incentives for reindustrialization. The educational program instituted in Japan in 1952 to explain the importance of saving may be producing manifold dividends for its citizens, in terms of both individual wealth and national capacity. . . .

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