

RESEARCH BUZZ



Page Article

1	The Superlative Recession and Economic Policies
8	President's Financial Literacy Advisory Council Releases 2008 Annual Report

The Superlative Recession and Economic Policies

By Dr. John A. Tatom
john.tatom@isunetworks.org

In late 2008 and early 2009, there has been a serious deterioration in the economic outlook of political leaders, the media and many economic analysts. The National Bureau of Economic Research, the widely regarded official arbiter of business cycle dates, announced on December 1, 2008 that the economy had peaked or entered a recession in December 2007. Subsequently, comparisons of recent performance and the outlook have degenerated into comparisons with the Great Depression of the 1930s, suggesting that the current recession is the worst since the 1930s. This recession should be called the superlative recession because discussions invariably refer to the most dismal performance since the Great Depression: the decline in stock prices is the worst, the decline in employment is the worst, the fall in output is the worst, the rise in the unemployment rate is the worst, the banking system crisis is the worst, or any number of other "worsts" since the depression.

These superlative comparisons are far off base. But more importantly, the superlatives seem to have succeeded in reversing 70 years of history on economic policy and economic thought. Policy-makers suddenly have rediscovered policy re-

sponses from the depression and advocated, after the fact, by so-called Keynesian economists, followers of British economist John Maynard Keynes. With the benefit of time, depression era policies had been seen as complete failures that extended and worsened the depression (see Shlaes 2008, for example). A long delayed monetary policy easing has offered new possibilities for an end to the deepening recession, but its continuation remains in doubt because it is the result of a shift in policy procedures more than of a shift in policy. More troublesome is that massive fiscal policy programs have become central to the policy debate, despite three large failed fiscal responses over the past year and a strong consensus in the policy community that such efforts are not likely to be effective. A change of leadership has focused efforts on increasing federal spending in ways and to an extent not seen in many years.

Unemployment

The recent run-up in the unemployment rate pales in comparison with earlier recessions. There have been ten earlier recessions since the end of World War II and eight of them did not last as long as the current one has. So far, this is one of the longer recessions since the Great Depression. The two post-war recessions that lasted longer were from November 1973 to March 1975 and from July 1981 to November 1982, both 16 months in length. For the current recession to last longer, it would have to end in May 2009 or after. Some forecasts indicate that this is likely, while others do not. It is possible that this recession could be the longest since the Great Depression, but the comparison would likely be very weak because that recession lasted 43 months, from August 1929 to March 1933, and had incomparable consequences.

In December 2008, the unemployment rate hit 7.2 percent, up 2.3 percentage points over the previous year. This is the highest rate since the 7.3

percent registered in December 1993, not some time in the 1930s. The outlook, again according to the media and many pundits, is that it would move far higher, to 9 percent, 10 percent or even more, by the end of 2009 and perhaps still rising into 2010. Before jumping to the future, however, it is useful to look at the past. In January 1993, the last time the unemployment rate was so high, a new administration entered office and proposed massive stimulus as part of “Rebuild America” program that called for increased infrastructure spending. A key difference is that by January 1993, the unemployment rate was falling, having peaked at 7.8 percent in June 1992.

In the 1973-75 recession, the unemployment rate at the business cycle peak was nearly the same as recently. In November 1973, the unemployment rate was 4.8 percent, about the same as the 4.9 percent in December 2007. In 1973-75, the unemployment rate rose 1.8 percentage points in the first 12 months of the recession, somewhat less than recently; for the full 16 month period, it rose 4.2 percentage points, far more than we have seen so far in the current recession. Moreover, the peak in the unemployment rate did not come at the end of the recession in March 1975, but instead it continued to rise for another two months, peaking at 9.0 percent in May 1975, 4.2 percentage points higher than at the business cycle peak.

In the 1981-82 recession, the unemployment rate rose more in its first 12 months than recently. From the peak in July 1981, when the unemployment rate was already 7.2 percent, the rate rose 2.6 percentage points to 9.8 percent a year later. By the trough of the recession, the unemployment rate had risen 3.6 percent points to 10.8 percent. To exceed this rise, the unemployment rate would have to reach 8.5 percent by its end, which, again, some forecasts suggest may occur, while others do not.

In the ten previous recessions, the worst 12-month increase in the unemployment rate had an average of 2.8 percentage points, higher than the 2.3 percentage point rise in the first 12 months of this recession. Indeed, in only four of those recessions was the worst 12-month rise smaller than in the current one and in six of them the rise in the unemployment rate was larger. The extent of the

current recession, at least as gauged by this indicator, is relatively mild. After its first year, at least, the current recession is not longer than two of the past ten recessions and it is a small fraction of the length of the depression. Moreover, it has not produced outsized unemployment increases in its first year, compared with the worst two postwar recessions, somewhat worse than in one and somewhat better than in the other. If the unemployment rate rises to 9.2 percent or more before it ends, it would be worse than in any postwar recession, but not rival in any meaningful or comparable sense the 25 percent peak in unemployment during the Great Depression.

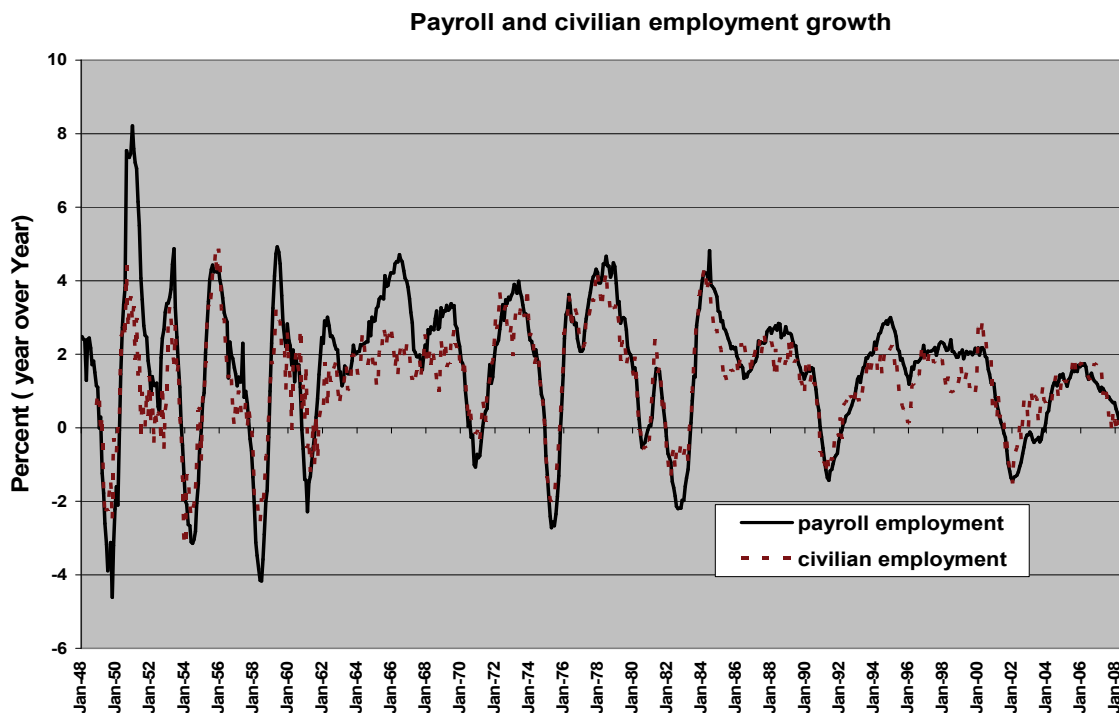
Chart 1 shows the growth rates of payroll and civilian employment for 12-month periods since 1948. In most of the previous recessions, indicated at the successive low points in the chart, employment growth rates were lower than so far in the current recession. This matches the experience with the changes in the unemployment rate noted above. Six of the previous ten recessions had larger rates of decline over some 12-month period than in the first 12 months of the current recession, even though only two of them lasted that long.

Many pundits point to a 2.6 million decline in payroll employment over the 12 months ending in December 2008 as a sign of the superlative recession. In 40 of the 720 quarters since 1948, however, there were larger 12-month percentage declines in payroll employment than in the recent year. That is, the recent decline was exceeded in more than 5 percent of the possible observations and in more than 25 percent of all the periods when employment has declined for a one-year period. This is not an unusually large decline for a recession. The main indicator of recession is real GDP, the measure of the output of the nation’s goods and services, though unemployment developments are the more important indicator of the social losses of recession.

Real Gross Domestic Product (GDP)

Real GDP has only recently begun to decline in this recession. Until the third quarter of 2008, real GDP was higher than it was at the cyclical peak in the fourth quarter of 2007. With the 3.8

Chart 1
Recent employment growth has been similar to the previous ten cyclical low points



Source: U.S. Bureau of Labor Statistics

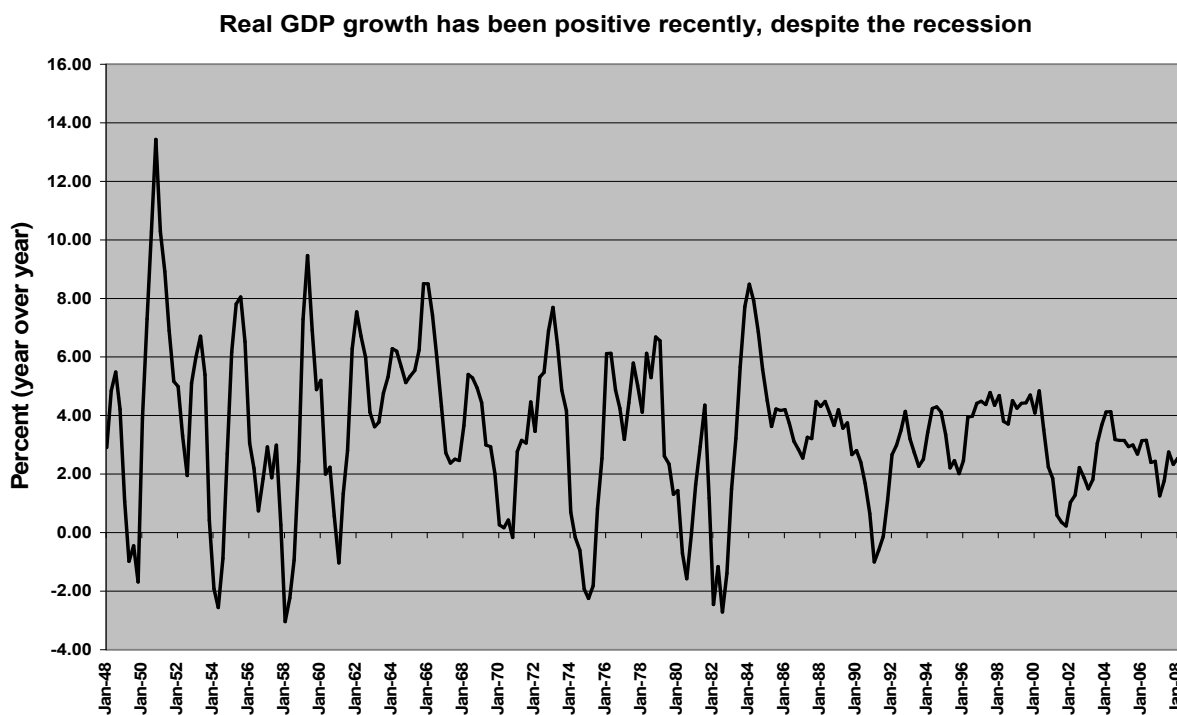
percent rate of decline in the fourth quarter of 2008, real GDP was down by only 0.2 percent over the first four quarters of the recession, a relatively weak recession. After one year, real GDP is usually down by more than that. A further 5 percent rate of decline in the first quarter of 2009 would leave real GDP down only 1.5 percent over the five quarters of recession, smaller than in both the 1973-75 and 1981-82 recessions. To exceed the decline in those two five-quarter recessions, real GDP would have to decline about 11 percent at an annual rate in the first quarter of 2009, almost three times as fast as the decline in the last quarter of 2008 and a faster pace of decline than any recorded since 1947. Should such a record decline occur, real GDP would be down 3.1 percent over the five quarters, just edging out the 1973-75 experience as the worst since the Great Depression.

Chart 2 shows real GDP growth on a year-over-year basis since 1948. In five of the ten past

recessions, real GDP declined for a year by more than 2 percent and in two others it declined by more than one percent. The 0.2 percent decline for four quarters registered in the last quarter of 2008 is smaller than in eight of the last ten recessions.

For the worst two post-war recessions, the declines over the five quarters were 3.1 percent in 1974-75 and 2.6 percent in 1981-82. To reach a decline of 3.1 percent or more, surpassing all post-war recessions in five quarters, real GDP would have to decline by 11.1 percent in the first quarter of 2009. This would be remarkable, since real GDP has not declined at such a pace in any quarter in the postwar era. Of course a longer recession that included some historically record levels could extend the current recession into record breaking territory, but so far this does not appear likely unless economic activity deteriorates far beyond a simple extrapolation of the fourth quarter 2008 performance for two or three more quarters.

Chart 2
Real GDP has just begun to decline



Source: U.S. Bureau of Economic Analysis;
 latest observation is IV/2008

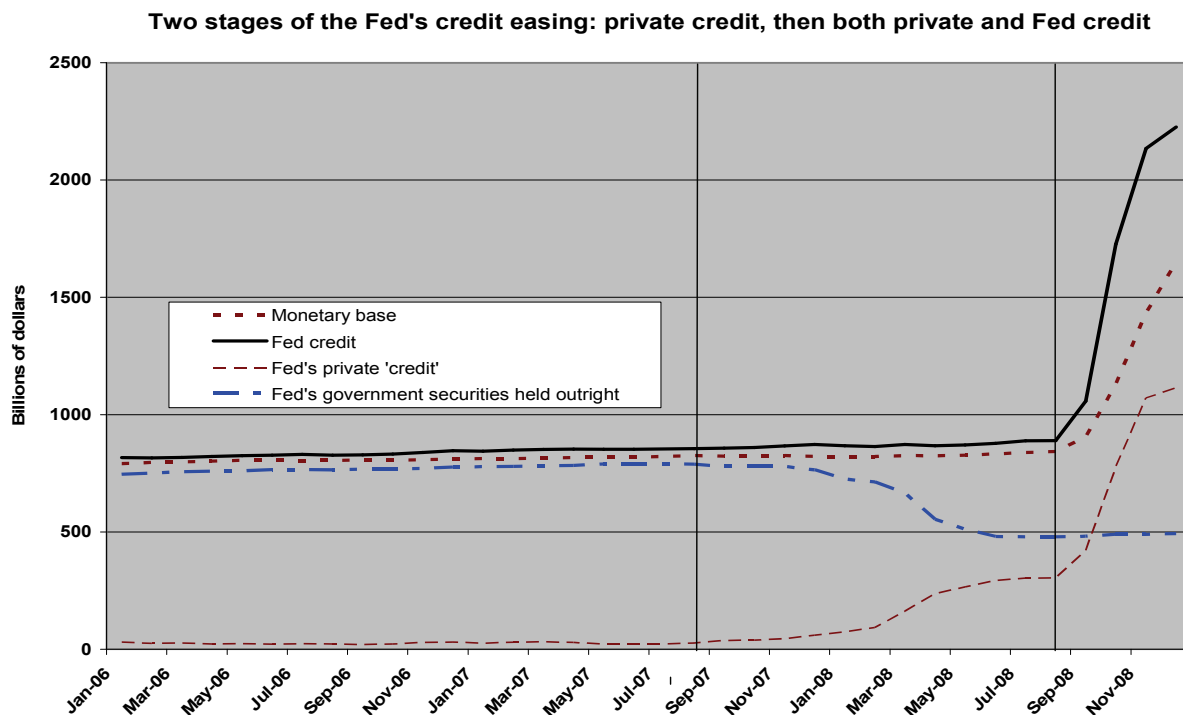
Should the worst postwar recession occur, however, it would not be too surprising. Tatom (2008a) shows that the energy price shock in the first half of 2008 was far and away the largest since World War II and perhaps ever in U.S. history. The worst two recessions in postwar history were associated with huge energy prices shocks as well, but they were not subsequently reversed in the same way as the 2008 shock. Nor were they associated with such a large shock to the growth rate of monetary measures as occurred with the tight monetary policy from 1996 to the third quarter of 2008. Fortunately, this shock has also reversed sharply, suggesting that an economic recovery may have been set in motion already. In any event, comparisons to the Great Depression are over the top. According to annual data prepared by Robert Gordon, over the four years from 1929 to 1933, real GDP fell 45.2 percent, or at a 14.1 percent annual rate!

The flawed responses

Monetary policy

The Federal Reserve (Fed) expanded the monetary base and Federal Reserve Credit dramatically in September 2008, following two years of progressively slower monetary and total credit expansion. These moves suggested a change in policy that would bring on a recovery in economic activity. But these changes may not continue because there has been no major shift in policy yet, only a change in procedures. Chairman Bernanke (2009) recently clarified monetary policy in a major speech in London. He indicated that the Fed had not shifted to so-called “quantitative easing,” which is a new euphemism for expanding the monetary base and monetary aggregates in a low interest rate environment. Instead, the Fed continues to pursue “credit easing” aimed at supplying credit to selected private sectors.

Chart 3
The Fed finally expanded the monetary base sharply in recent months



Source: Board of Governors of the Federal Reserve System

Until September 2008, the Fed focused on increasing its supply of credit to the private sector, sterilizing it by selling government securities to keep Fed credit and the monetary base unchanged. Since then a change in policy procedures has continued rapid growth in private credit and, at least in September to December 2008, even larger increases in total Fed credit and the monetary base (see chart 3).¹

It is likely that the explosive growth in the monetary base will be sufficient to stimulate a recovery in economic activity. With a closer Fed focus on credit, however, this is could become more difficult in the near future if the surge in monetary stimulus is allowed to go away or reverse.

More fiscal stimulus

A new round of fiscal policy stimulus has taken center stage in policy discussions, perhaps because

of the widely-accepted, but false, notion that monetary policy became impotent when the the Fed lowered the federal funds rate target to a zero-to-0.25-percent range on December 16, 2008. The general outlines of the policy were presented in a speech by then President-elect Obama on January 8, 2009. Early estimates placed the cost of the bill at \$750 billion over two years, but the initial House of Representatives version totaled \$825 billion and was passed in the House on January 28, 2009. This bill includes about \$275 billion in tax cuts and about \$550 billion in new spending.

There has been a major swing back to Keynesian fiscal policy ideas in the U.S. and elsewhere and not because of new evidence that it has become more effective or timely than in the past. Instead, the shift appears motivated by two forces: fear that failure to enact a massive bill will damage public confidence and, second, a desire to pull all of the social spending plans of a new administration into

one large front-loaded program, independent of the stimulative effects of any particular components of spending on overall spending on goods and services or on total employment. This is unfortunate given the massive spending programs of the past year that have proven to be ineffective in stimulating spending, largely by design and for long-known reasons. These include the tax cut program passed in spring 2008 (\$168 billion), the housing refinancing and stimulus program (\$300 billion), and the bank bailout program passed in September 2008 (\$700 billion).

Economists sometimes discuss the effects of spending on the aggregate demand for goods and services or real GDP in terms of “the spending multiplier,” especially in the most elementary textbooks and around the halls of governments. For example, they might evaluate spending and tax multipliers to assess whether spending or tax changes affect aggregate demand or to compare the relative size of their effects. The spending multiplier indicates how much real GDP would be expected to rise per one dollar rise in spending. Policymakers also like to discuss employment multipliers: how much total employment rises per dollar rise in government expenditures. Forty years ago (November 1968), Andersen and Jordan produced one of the most provocative tests of monetary and fiscal policy effectiveness ever published. They found that fiscal spending has no effect on GDP beyond a few quarters. This implies that the multiplier after one year is zero, so that the new government spending is fully offset by reduced private spending. In short, fiscal spending policy is impotent within a short time.

Mankiw (2008), following a more Keynesian modeling tradition, argues that the spending multiplier is one, so that government spending has no effect on private sector spending and the effect on GDP is simply due to the larger government component of spending. He suggests that a consensus estimate is a multiplier of 1.4, so that each dollar of government spending would raise the government component by one dollar and boost private sector spending by another \$0.4. Some proponents of road building believe that such spending can have a multiplier closer to 3, a classic mix of bad economics, bad measurement and political exploitation of

admittedly simplistic pedagogy from elementary textbooks. Mankiw (2008) also notes work by the new Chair of the President’s Council of Economic Advisers, Christina Romer, and David Romer (2007), showing that the tax multiplier is much larger, so that a tax cut of a given size is a much more effective stimulus than the same size government spending increase.

Robert Barro (2009) has long argued that government spending has an average multiplier of zero in peacetime years, though he finds some evidence that in wartime the spending multiplier could be as large as 0.8, because not all of the new military spending is offset by reduced private sector spending. Woodford and Hall (2009) indicate that the wartime spending multiplier is one, similar to Barro’s result. The current wartime experience does not compare with the two world wars or the Korean war, in terms of the risks to wealth and permanent income or in terms of the size of the boost in military spending. In this decade, there was a war-related surge in federal spending of less than one percent of GDP several years ago, hardly comparable to the surge, for example in World War II. At that time, federal outlays rose from 9.4 percent of GDP on average in 1935-40 to 12 percent in 1941, 24.3 percent in 1942 and 43.6 percent in 1943 and 1944. Even the new proposal for spending, \$550 billion over two years (less than 2 percent of GDP on average per year), is trivial in comparison to those earlier wartime surges in spending. The important point is not the relative size of the spending increase, however, it is the absence of a threat to permanent income such as that posed by the world wars.

Tatom (1991) uses a private sector production function to assess whether government infrastructure capital formation (non-defense) boosts private sector productivity and output and finds that there is no effect. This might suggest that public sector infrastructure spending has a multiplier of one, or that real GDP rises only by the amount of the government spending, as suggested by Woodward and Hall. However, David Alan Aschauer (1989) shows that private sector investment spending declines dollar-for-dollar with an increase in public sector spending. Two implications of this are that private sector output is reduced due to the decline

in the private sector capital that occurs when public sector capital increases, so that real GDP is unaffected by public infrastructure spending or the spending multiplier is zero. The former effect is referred to as “direct crowding out” as the rate of return to private sector capital formation is diminished by an increase in public sector capital formation. The implications of this research are that government spending usually is not effective in stimulating aggregate demand and boosting total employment. Output and employment are simply moved around from the private to the public sector, with no effect, or perhaps negative effects, on the overall productivity of the nation’s resources.

Gramlich (1994) provides a summary of the debate over infrastructure spending, though he is more sanguine, like Aschauer, about the productivity enhancing effects of infrastructure spending.

The consensus of economists, at least until recently, is that fiscal spending policy is weak at best and usually too poorly timed to be useful for short-term effects on economic policy, but that tax cuts, again suffering from poor timing usually, can be effective when they are permanent or provide immediate incentives for spending, such as an investment tax credit. Fortunately monetary policy is very powerful and does not suffer from the implementation lag that fiscal policy does. The current spending package and tax cuts suffer from the worst problems of fiscal policy. The spending increases focus on a collection of infrastructure spending and other programs that are chosen for political reasons and not for their potential effects on output and employment. Even the best efforts would not have much or any effect, however, since government spending has a weak track record as a fiscal stimulus policy. Some analysts have suggested other policies that would likely work, if they could be implemented in a timely way. One is a proposal by Susan Woodford and Robert Hall that temporary state sales tax elimination, financed by federal transfer payments to states, would provide strong incentive to boost private sector spending quickly. Like an investment tax credit or any other temporary spending subsidy, it would only be available for spenders and only for the immediate future when the spending is desired, unlike an income or wage tax cut that provides no direct incentive to spend, especially if temporary. Unfortu-

nately, as noted, there are few incentives to spend in the recovery and reinvestment plan. Part of the business tax cut is only available for businesses that do more investment spending and some spending programs are contingent on new spending before a future deadline, so that the incentive is to spend now and not later. Getting the spending going apparently will require more than this, however. The Congressional Budget Office (2009) estimates that the roll out of the new spending will be too slow to have much effect in 2009, even if one assumes that it can be effective in stimulating aggregate demand.

Unfortunately, policymakers are ignoring evidence on what works and what doesn’t. They are also ignoring the negative effects that booming spending is having on financial markets and fears of future taxes. There is also mighty risk of damage to the new Administration’s plans. The last major initiative to “Rebuild America” was at the beginning of the Clinton Administration when the unemployment rate was about the same as in December. That program failed to pass because of similar questions about its necessity and effectiveness; its failure to pass was also a major setback for the rest of the Clinton Administration’s plans and first term.

Most political pundits suggest that the Obama Administration’s spending and tax plan will pass, perhaps with major modifications. In the best case scenario, seldom-mentioned monetary policy may provide the stimulus that many newly minted Keynesians believe will come from fiscal stimulus.

Endnote

1. The monetary base is the Board of Governors’ series on a monthly, seasonally adjusted basis; the other three series are monthly averages of not-seasonally-adjusted weekly data based on the Fed’s weekly H.4.1 data on “Factors Affecting Reserve Balances.”

References

- Aschauer, David Alan, “Does Public Capital Crowd Out Private Capital?” *Journal of Monetary Economics*, Vol.24, Issue 2, (September 1989), pp.171-188.

Andersen, Leonall C. and Jerry Jordan, "Monetary and Fiscal Actions: A Test of Their Relative Importance in Economic Stabilization," in the Federal Reserve Bank of St. Louis *Review*, Vol. 50, No. 11 (November, 1968), pp. 11-24.

Barro, Robert, "Government Spending is No Free Lunch," *The Wall Street Journal*, January 22, 2009.

Bernanke, Ben, "The Crisis and the Policy Response," the Stamp Lecture, London School of Economics, London, January 13, 2009. <http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm>

Gramlich, Edward M., "Infrastructure Investment: A Survey Essay," *Journal of Economic Literature*, Vol. 32, No.3 (September 1994), pp. 1176-1196.

Mankiw, Greg, "Spending and Tax Multipliers," Gregg Mankiw's Blog, December 11, 2008. <http://gregmankiw.blogspot.com/2008/12/spending-and-tax-multipliers.html>

Obama, Barack, "American Recovery and Reinvestment, speech, January 8, 2009. <http://www.whitehouse.gov/agenda/economy>

Romer, Christina D. and David H. Romer, "The Macroeconomic Effects of Tax Changes, Estimates based on a New Measure of Fiscal Shocks," University of California, Berkeley, March 2007.

Shlaes, Amity, *The Forgotten Man: A New History of the Great Depression*, New York: Harper Collins Publishing, 2007.

Tatom, John A. "Is the Financial Crisis Causing a Recession?" Networks Financial Institute *Research Buzz*, Volume 4, Issue 10, December 2008a, pp. 1-5.

_____, "The Continuing Foreclosure Crisis: New Institutions and Risks," Networks Financial Institute *Research Buzz*, Volume 4, Issue 7, September 2008b, pp.1-6.

_____, "Public Capital and Private Sector Performance," Federal Reserve Bank of St. Louis *Review*, 73(3) (October 1991), pp. 3-15.

Woodward, Susan and Robert Hall, "Measuring the Effects of Infrastructure Spending on GDP," in Financial Crisis and Recession, Blog, Updated January 1, 2009. <http://woodwardhall.wordpress.com/2008/12/11/measuring-the-effect-of-infrastructure-spending-on-gdp/>

■ John A. Tatom is the Director of Research at Networks Financial Institute.

President's Financial Literacy

Advisory Council Releases 2008

Annual Report

By Nick Ochieng
nick.ochieng@isunetworks.org

The President's Advisory Council on Financial Literacy, chaired by Charles Schwab, was created by President George W. Bush on January 22, 2008 for an initial two years through to January 2010, during which it should come up with ways to improve financial literacy in America. On January 6, 2009, the Council presented the President with its first annual report outlining various recommendations to achieve this goal. The recommendations in this report focus on "improving financial literacy among children of all ages, from pre-school through post-secondary education; supporting and enhancing the increasingly important role of employers in providing financial education to their employees; increasing access to financial services for the unbanked and underserved; undertaking critical research in the area of financial literacy; and increasing public awareness both of the problem and of the many resources available to combat it."

It is arguable that some effects of the ongoing housing and financial crises would have been minimized had the level of adult financial literacy been higher. Better informed decisions could have been

made by individuals, for example, in accepting subprime mortgages, a key component of the housing crisis. With enhanced financial education, many people would have a better understanding of the ramifications of financial crisis on their savings and investments, and how to make prudent adjustments on them to minimize losses.

The Council provides about fifteen recommendations for improving financial literacy, categorized as follows:

To expand and improve financial education for students from kindergarten through post-secondary education:

- *Recommendation 1* – Mandating financial education in all schools for students in grades kindergarten through 12. For those schools without access to curricula, encourage the adoption of “Money Math: Lessons for Life,” a ready-to-use, middle-school curriculum created by the Department of the Treasury and endorsed by the Council.
- *Recommendation 2* – The United States Department of the Treasury should institutionalize and expand the National Financial Literacy Challenge, a personal finance contest for high school students. The voluntary exam was initially done in spring 2008 by 46,000 students and expanded in November 2008 to 75,000 students.
- *Recommendation 3* – The United States Department of the Treasury should implement the Post-Secondary Financial Education Honor Roll program, approved by the full Council in 2008, to encourage best practices in financial education at colleges and universities.
- *Recommendation 4* – The President should direct both Department of the Treasury and the Department of Education to require college students to take a more comprehensive course in financial literacy (or pass a competency test) than the present entrance and exit counseling requirements, as a condition of receiving federally funded or federally guaranteed student loans.
- *Recommendation 5* – The Department of the Treasury should promote the availability of

financial education resources for parents, caregivers, and teachers to use with pre-school and early elementary school children.

In a March/April 2007 national K-12 financial literacy survey done by Networks Financial Institute, teachers identified some key reasons why financial literacy is not covered in their classrooms, notably:

1. Lack of state standards for financial literacy.
2. Lack of relevance and/or suitability of the topic to either subject, grade or students (i.e., special needs).
3. There is a need for professional development and training in financial literacy. Last, but not least, is lack of instructional time.

JumpStart Coalition for Personal Financial Literacy also indicates that, currently, only three states require at least a one semester course in personal finance, seventeen states require personal finance material incorporated into other subject matter while the rest of the states have no requirements (but personal finance can be taught electively). The above recommendations begin to address some of these concerns.

In supporting the increasingly important role of employers as providers and conduits of financial education to their employees:

- *Recommendation 6* – The United States Congress should explore one or more tax incentives to encourage employers to provide financial education in the workplace
- *Recommendation 7* – The United States Department of the Treasury should implement the Workplace Financial Education Honor Roll program, approved by the full Council in 2008.
- *Recommendation 8* – The United States Department of the Treasury should create an internet-based resource center on the Federal government’s financial literacy website, www.mymoney.gov, for human resource professionals and employers that consolidates the best financial education information and resources.

To increase access to financial services for the millions of unbanked and underserved Americans:

- *Recommendation 9* – The United States Congress should require financial institutions to provide every adult American with access to an electronic, debit card-accessible depository account protected by the Federal Deposit Insurance Corporation or the National Credit Union Administration.
- *Recommendation 10* – The United States Congress should provide federal funding for any non-profit organizations working on community-based financial literacy programs and for state and local governments demonstrating leadership in financial education for their residents.

While participation of U.S. immigrants was the focus of their study, Osili and Paulson (2008) point out that the breadth and depth of financial participation is often determined by factors such as culture and country of origin. Financial breadth in this case refers to whether an individual has any relationship with a bank (a savings or a checking account). On the other hand, financial depth captures how many of the functions of financial markets the individual uses. Immigrants are a large and growing segment of the U.S. population and, bearing this in mind, immigrants and other unbanked and underserved populations could benefit greatly from the above two recommendations.

To identify and promote a standardized set of skills and behaviors that a financial education program should teach an individual:

- *Recommendation 11* – The private sector, state and local governments, and nonprofits should adopt the Council’s definitions for “financial literacy” and “financial education,” so that programmatic decisions are based on a common understanding of the terms. The Council adopts the Financial Literacy and Education Commission’s definitions of those two terms. Specifically, the Council defines “financial literacy” as “the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial wellbeing” and defines “financial education” as “the process by which people improve their understanding of financial

products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial wellbeing.”

- *Recommendation 12* – The United States Department of the Treasury should identify and standardize the specific skills that a person should have upon completion of a comprehensive financial literacy program and explore the creation of a certification program for such programs and for instructors of programs that meet the criteria.

To promote more awareness among Americans of the state of financial literacy generally and of their own financial literacy, and dedicate more resources toward educating Americans how to improve on the results:

- *Recommendation 13* – Colleges, universities, and other research entities should execute critical research into the state of financial literacy and the most effective measures to increase financial literacy in the United States.
- *Recommendation 14* – Nonprofits should create and distribute a self-administered “National Financial Check-Up” that would allow Americans to assess their own financial knowledge, and provide links to trustworthy sources of information to fill in any gaps.
- *Recommendation 15* – The United States Congress should appropriate funds to the Department of the Treasury to coordinate active and ongoing media and marketing outreach to promote more widespread knowledge of general financial education concepts among the American people. These efforts should include direct outreach as well as multi-media campaigns.

The Council is expected to take a short break while the Treasury Department is reorganized. Some of the Council members have taken additional roles in the new administration. Mary Schapiro has been approved by the U.S. Senate to head the Securities and Exchanges Commission. Two members of the Obama transition team who attended the presentation of the report to outgoing Treasury Secretary Henry Paulson said they would advocate continuation of the Council. If so, some of the recommendations in the report may be im-

plemented, subject to the approval of the new administration.

Endnotes

1. President's Advisory Council on Financial Literacy, 2008 Annual Report to the President, January 6, 2009.
http://www.treasury.gov/offices/domestic-finance/financial-institution/fin-education/docs/PACFL_ANNUAL_REPORT_1-16-09.pdf
 2. Networks Financial Institute, National K-12 Financial Literacy Qualitative & Quantitative Research, March/April, 2007.
<http://www.networksfinancialinstitute.org/SiteCollectionDocuments/NationalK12FinancialLiteracyStudy.pdf>
 3. Jump\$Start Coalition for Personal Financial Literacy. http://www.jumpstart.org/state_legislation/index.cfm
 4. What Can We Learn about Financial Access from U.S. Immigrants? http://www.networksfinancialinstitute.org/Lists/Publication%20Library/Attachments/114/2008-WP-05_Osili-Paulson.pdf
 5. The Charles Schwab Corporation <http://www.aboutschwab.com/community/financial-literacy/council.html>
- Nick Ochieng is a Research Associate at Networks Financial Institute.