

# ECONOMIC DIRECTIONS

A Publication of Saint Vincent College's Alex G. McKenna Economics Education Series

CENTER FOR ECONOMIC & POLICY EDUCATION, SAINT VINCENT COLLEGE, LATROBE PA

VOLUME 9 NUMBER 1



## Are Stocks Still RIGHT For the Long Run?

*(The following is a lecture delivered by Dr. Jeremy J. Siegel, Professor of Finance, Wharton School, University of Pennsylvania at Saint Vincent College, Latrobe Pennsylvania, on September 30, 1998 as the 42nd lecturer in the Alex G. McKenna Economic Education Series.)*

When I wrote the first edition of *Stocks for the Long Run* in 1993, the Dow Jones Industrial Average was 3500 and the prices of stocks relative to earnings were close to their historical average. My research demonstrated that stocks in the long run

not only offered investors higher returns, but, when uncertain inflation was taken into account, entailed lower risk than fixed income assets. The evidence was overwhelming that stocks should be the cornerstone of every investor's long-term portfolio.

But circumstances are quite different today. The great bull market that began in August of 1982 is one of the longest and strongest in stock market history even counting the recent decline. Over the past sixteen years the real return on stocks has been almost 14% per year, nearly double the average 7 percent real return that has characterized stock returns over the past two centuries.

The rise in stock prices since 1982 has substantially outpaced the rise in corporate earnings. Although per share earnings on the S&P 500 Stock Index has risen 200% since 1982, stock prices have risen 800%, four times as much. As of September 1998, the S&P 500 Stock Index is selling for nearly 23 times projected 1998 earnings, far above the 15 to 20 multiple that has historically characterized periods of low inflation. Throughout history, stocks have only sold at peak multiples in economic down-

turns, when earnings are abnormally depressed. Stocks have never been so highly valued seven years into an economic cycle, the current age of the US expansion. Given these circumstances, one can justifiably ask, "Are stocks still right for the long run?" That question is the subject of today's lecture.

### Long-term Stock and Bond Returns

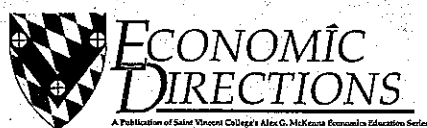
There are two consequences implicit in the current level of stock prices. Either future stock returns will fall below the historical norm, or future earnings growth is going to exceed its historical levels so that stockholders can continue to enjoy the high stock returns despite today's high prices. Before we examine which of these two consequences is most likely to occur, it is important to review the historical risks and returns to equity investing.

Since the beginning of the nineteenth century, the average compound rate of return on a fully diversified portfolio of common stocks, dividends plus capital gains, has been 7% per year after inflation. The after-inflation return on long-term government bonds has been exactly one-half of the stock return, 3.5% per year. The difference between these returns is called the "equity premium" and has averaged 3.5% over the past two centuries.

Real stock returns have remained remarkably constant over time, averaging between 6.5% and 7.5% annually over the three major periods (1802 to 1870, 1871 to 1925, and 1926 to the present) that span the research in my book, *Stocks for the Long Run*. In contrast to stocks, the real return on fixed income assets has fallen markedly. Since 1926, the real return on bonds has averaged only 2.2% per year, and only 1.1% per year since World War II. The low return on fixed income assets since 1926, a period made into a popular benchmark by the historical yearbooks of Roger Ibbotson and Rex Sinquefeld, boosted the equity premium over the past 71 years to about 6% per year.<sup>1</sup>

<sup>1</sup> Mathematically, the equity premium is usually defined as the difference in the arithmetic, not the geometric or compound returns on stocks and short-term bonds. This has averaged over 8% since 1926.

But it is very likely that the 6% equity premium since 1926 overstates the forward-looking difference between stock and bond returns even if stock returns do not fall. Real bond returns computed over the past half century are biased downward by the unanticipated double-digit inflation of the 1970s. This inflation caused severe losses to the holders of fixed income securities who did not incorporate a sufficient inflation premium in their nominal yields. Today expected real returns on government bonds can be found by observing the 3.7% yields now offered by the Treasury's new inflation index bonds. These indexed bond yields are extremely close to the real returns I found on nominal government bonds over the past two centuries and far higher than those calculated since 1926.



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Alex G. McKenna Economic Education Series

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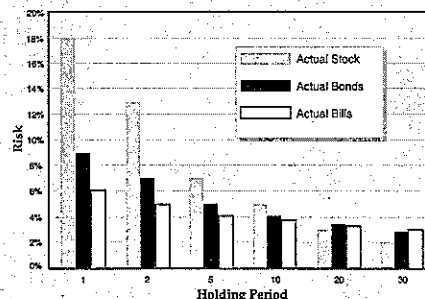


Greeting. . . Dr. Andrew Herr, Fellow in Economics and Policy, Center for Economic and Policy Education greets Dr. Jeremy Siegel (center), Professor of Finance, Wharton School, University of Pennsylvania; and Dr. Gary Quinlivan, (right), Executive Director, Center for Economic and Policy Education.

### Long-term Risks

Although the 3.5% historical equity premium may seem reasonable given the apparent volatility of stock returns, this premium appears unjustifiably large when the long-term risks of stocks and bonds are taken into account. The chart below displays the standard deviation of average after-inflation returns on stocks, bonds and bills since 1802. It shows that the behavior

Holding Period for Annual Real Returns  
Historical Data and Random Walk (dashedlines)  
1802-1996



of stock and bond volatility changes dramatically when the investment horizon is lengthened.

The standard deviation of average annual stock returns declines rapidly as the holding period increases, far more rapidly than calculated on the basis of the short-term volatility of stocks. For thirty-year holding periods, the historical risk in equities is only about one-half what would be predicted on the basis of the standard deviation of one-year returns if stock returns followed a random walk. Although the random walk theory of asset price movements was long believed to be the best description of security prices, the 200-year data does not support the random walk

hypothesis. The data indicates that stock returns show strong evidence of mean reversion - the statistical tendency for returns to tend towards a long-run average despite substantial short-term volatility.<sup>2</sup>

The real returns on fixed income investments, on the other hand, show no such mean reversion. In fact, the data confirms the opposite: the real returns on bonds display mean aversion, the tendency for returns to wander away from, instead of being drawn to a mean in the long-run. This behavior is primarily due to the impact of inflation, which is an autocorrelated process that has a greater short-term than long-term predictability.

The mean reversion of stock returns and mean aversion of bond returns cause the real risk

of stocks to fall below that of bonds or bills for holding periods of 15 to 20 years or longer. This implies that the risk premium of stocks relative to nominal bonds should disappear - and might even turn negative - for long-term investors. The fact that the return on equity far exceeds that on bonds implies that short-term risks dominate the equity market.

### The Earnings Yield and the Equity Return to Investors

What does the current above-average price-to-earnings ratio tell us about future stock returns? Over the long run, the earnings yield, or inverse of the price-to-earnings ratio, has been an excellent indicator of long-term real returns to investors. Since 1871 the average price-to-earnings ratio of the stock market has been 14, which translates into an earning yield of about 7%, equal to the average real return I have found investors have earned on equities since 1802.

The equality between the earnings yield on stocks and the real returns to stockholders has a strong theoretical basis. Returns to shareholders arise from real assets, such as capital, land, labor, and technology whose combination produces cash flows which, in contrast to the fixed returns from

<sup>2</sup> The mean reversion of stock returns does not mean that simple rules can be devised to obtain returns, which, in the common language, "beat the market." Over periods of months or even years, the movement of the market can rarely be distinguished from a random walk, despite the many patterns that technical analysts believe they find in stock prices. Yet over periods of ten or more years, mean reversion becomes a force with which equity holders have to contend.



Students who participated in the program included, (from left) Siddhartha Namasivayam, a senior business finance major from Greensburg; Elizabeth M. Kaczmariski, a senior economics major from New Kensington; speaker Dr. Jeremy Siegel; Troy A. Ovitsky, a senior economics major from Mt. Pleasant; and Robert C. McBride, a senior biology major from Melmoth, South Africa.

bonds, rise over time with the overall price level. The return to shareholders thus represents a real return, much like the cash flows from the treasury inflation-indexed bonds.<sup>3</sup>

### The Equity Premium

If future earnings growth does not accelerate, the current price-earnings ratio of the S&P 500 Stock Index implies an earnings yield and hence an expected future real return of less than 5% for stocks. This is not far above the current real return from nominal bonds and implies a far lower equity premium than has been found in past data.

But what is the right premium that stocks should yield over bonds? Ever since the publication of "The Equity Premium Puzzle" by Ranish Mehra and Ed Prescott in 1985, economists have attempted to explain the historical magnitude of the equity premium. Mehra and Prescott did not find sufficient correlation between stock prices and changes in aggregate consumption to warrant a premium anywhere near the 6% excess return to stocks that has prevailed since 1926, or even the 3.5% premium that has characterized the past two centuries.

<sup>3</sup> The fact that the returns to shareholders arise from real assets does not imply that stock prices are insulated from inflationary pressures. In the short run, inflation is often influenced by supply shocks, such as oil embargoes or external financial crises that can have strong influence on stock earnings. But the data are overwhelming that in the long run, real stock returns are not influenced by the rate of inflation. Despite the fact that all the inflation that the US has experienced over the past two centuries has occurred since the end of World War II, the real returns on stocks during the last fifty years are not much different than the previous one hundred and fifty.

In fact, in the context of standard economic models calibrated on historical data, unless investors are extremely averse to risk, it is difficult to explain an equity premium higher than one percentage point. And this difficulty is made worse by the long-term mean reversion of stock returns and mean aversion of bond returns that should reduce or eliminate the premium altogether.

There have been numerous attempts to reconcile the high historical magnitude of the equity risk premium with those derived from economic models.<sup>4</sup> Explanations range from making the average investor far more averse to risk than we are led to

believe, or by introducing other, possibly psychological factors that induce investors to shun stocks and cling to safe short-run assets (which might not be all that safe after inflation in the long run).

respond to the extensive literature extolling stocks that has come from both academia and Wall Street, the price of equities will be bid up to levels that will lower future stock returns to a level that is more consistent with the historical evidence. In other words, once everyone learns about how good stocks have been in the past, their price will be pushed to levels that yield lower future returns.

Another factor justifying higher stock prices stems from the drastic reduction in transaction costs in recent years. Until recently, it was impossible for the average investor to obtain the average "market return" - taken as the capitalization-weighted return on all stocks - without incurring significant brokerage and dealer costs. When these costs are taken into account, the realized returns from a fully diversified portfolio of common stocks could be one to two percentage points lower than those calculated from historical data.<sup>5</sup> In contrast, index funds today offer even the small investors the capitalization-weighted market return with costs of 0.20% per year and less.

The availability of low-cost indexing lowers risks and increases returns to investors, and may be a factor sending



NATIONAL MEDIA COVER TALK . . . Mr. Edward Brown (third from left), a writer-reporter from Fortune magazine, came to Saint Vincent to cover the lecture of Dr. Siegel. He is pictured with, from left Dr. Andrew Herr, Dr. Siegel and Dr. Quinlivan.

All this means it is quite possible that future stock returns will be lower because they should be lower. Equities have offered investors premium returns because they have been underpriced and over-discounted by risk-averse investors. As investors

<sup>4</sup> Richard Thaler and I reviewed this literature in our 1997 article, "Anomalies: The Equity Premium Puzzle," published in the Journal of Economic Literature.

stock prices to higher valuations. As a result, investors in the future may realize returns lower than those calculated from market indices, although not necessarily lower when costs are accounted for. It is very likely that the recognition of the supe-

<sup>5</sup> In fact a recent study by Brad Barber and Terrance Odean (1998) of 60,000 households over a six year period found that transactions costs averaged 1.5% per year.

rior returns and low long-term risk of stocks, as well as the lower costs of investing in a diversified stock portfolio, drive part of the current increase in equity prices.

### Higher Future Earnings Growth

Most investors, of course, hope that the current high valuation of stock prices is due to increased future earnings growth and not a signal for lower future returns. The extraordinary rise in earnings over the past fifteen years has raised the hopes of many investors that a "new era" of faster earnings growth is at hand, justifying higher price-to-earnings ratios.

There are two sources from which higher earnings growth could become a reality. One is an increase in technological progress that will spur economic growth and raise earnings. The second is the opening of the global market economy that will introduce literally billions of consumers to goods and services that were formerly unavailable.

### Earnings Growth and Technological Progress

Many stock investors base their current optimism on the revolution in information and communication technology. There have indeed been many extraordinary advances in communication through the centuries: the telegraph, telephone, radio and television to name a few. But the current environment is unique. Not only is the cost of communicating around the world dropping precipitously, the cost of storing information is falling even faster than the amount of information is increasing.

One can picture a world in the not too distant future where all books, manuscripts, and current data, as well as markets for financial and real assets and goods and services can be instantly accessed anywhere in the world by anyone with an inexpensive portable computer. This revolution will give individuals unprecedented free time to pursue the leisure activities of their choice, and may usher in a new Post-Industrial Revolution. The revolution in information technology has already aided the restructuring of US corporations and lowered costs by reducing the need for middle management.

But the relation between economic growth and stock prices is quite tenuous. In the short-run, when an economy recovers from a recession, strong economic growth means higher earnings. But an increase in long-term economic growth is different. Although the aggregate earnings of firms rise because of an expanding economy, per share earnings, which are critical for valuation, need not. This is because firms must undertake capital investment - by either borrowing externally or retaining



current earnings - to achieve aggregate earnings growth. This requires that firms float more shares or issue more debt to finance economic growth. Since 1871 all of the increase in real per share earnings has come from reinvesting retained earnings - earnings not paid as dividends that were either reinvested in the firm or used to buy back shares. No separate contribution from real growth is evident in the long-term data.

The data on earnings growth are corroborated by the economic data on output and capital. Historically the fruits of increased growth have accrued to workers in the form of higher wages, while the returns to capital have remained approximately constant through time. Increased output has required increased capital, and this is supported by the fact that the capital to output ratio has remained relatively constant over time. In sum, it does not follow that technological change, even if it increases aggregate economic growth, will increase share prices.

### The transformation of big cap stocks

Despite my doubt that technological change in an of itself can give rise to faster earnings growth, the nature of the leading US corporations has been transformed sig-

nificantly over the past 30 years. The largest stocks ranked by market value are vastly different than those that have occupied those positions in the past. The table below shows the 20 stocks with the largest market value in the S&P 500 Stock Index in the summer of 1998 and those in 1964. I chose 1964 for comparison since that year was also marked with low inflation, low interest rates, and high price-earnings ratios.

In 1998, fifteen of the top twenty stocks are "growth" stocks, possessing above average price-to-earnings and price-to-book ratios. The average growth rate of per share earnings of these stocks has exceeded 15% per year over the past five years, and several: Microsoft, Intel, Cisco, have exceeded 20% per year.

In sharp contrast, fifteen of the top 20 firms in 1964 were considered "value" or cyclical stocks, possessing relatively low P-E and book ratios, while eight of the top twenty were oil companies. Only five were considered growth stocks. The average earnings growth of the 1964 group was only 8% per year, and no firm's growth exceeded 20%. It should be noted that these firms in 1964 were very large and very profitable companies. In fact the mar-

The Top 20 Companies in the S&P 500 Index

1964					1998				
Company	5 Year Return	% Mkt cap	% EPS Growth	PE ratio	Company	5 Year Return	% Mkt Cap	% EPS Growth	PE Ratio
AT&T	16.3	9.1	4.1	22.0	General Electric	31.9	3.18	15.0	29.7
General Motors	18.9	7.3	7.7	15.0	Microsoft	51.5	2.41	33.0	48.7
Std. Oil of NJ	17.5	5.0	8.1	17.8	Coca-Cola	31.7	2.26	13.8	48.3
IBM	18.5	3.7	18.8	36.5	Exxon	21.2	2.03	12.0	24.1
Texasco	19.6	3.1	9.3	16.9	Merck	30.6	1.63	12.7	27.0
Du Pont	2.6	2.9	-3.2	24.4	Pfizer	48.8	1.58	16.1	50.3
Sears	21.1	2.5	10.0	29.2	Wal-Mart	17.1	1.44	12.3	36.6
General Electric	1.2	2.2	7.1	25.2	Royal Dutch	24.4	1.4	8.3	23.7
Gulf Oil	14.7	1.6	8.4	14.9	Intel	40.2	1.36	35.9	22.6
Eastman Kodak	10.6	1.4	14.6	28.3	IBM	39.0	1.32	***	18.0
Std Oil of Cal	11.6	1.4	6.2	14.0	Procter & Gamble	29.4	1.31	15.5	32.6
Socony Mobil	17.0	1.2	10.7	13.8	Bristol-Myers	35.3	1.25	16.8	30.0
Royal Dutch	10.5	1.1	7.3	12.7	AT&T	10.1	1.15	0.4	15.5
Union C&C	3.2	1.0	-0.1	19.8	Johnson & John.	30.1	1.08	16.8	25.6
Shell Oil	5.7	0.9	8.6	15.3	Lucent Tech.	96.6	1.08	***	43.9
Procter & Gamble	17.6	0.9	7.8	26.8	Phillip Morris	24.1	1.06	7.4	11.7
General T&T	10.5	0.8	9.3	22.0	Du Pont	40.4	1.01	-0.1	20.3
Std Oil of Indiana	15.3	0.8	10.1	14.1	AIG	41.1	1.01	15.5	23.7
MMM	9.4	0.8	10.1	32.0	Cisco Systems	45.7	0.90	40.2	43.2
Ford Motor	9.3	0.7	4.4	12.0	Disney	34.4	0.89	11.5	35.9
Sum/Average	12.6	48.4	8.0	20.6	Sum/Average	36.2	29.35	15.7	30.4
S&P 500	10.7	100	10.5	21	S&P 500	30.2	100	14.8	23.5

Small firms are growth stocks, others are value stocks (BARRA criteria); % of total employees in S&P500 (21.5 million, 15% of US Labor Force); \*\* Based on operating earnings \*\*\* IBM Loss 5 years ago. LU not in existence. © Jeremy J. Siegel 1998.

ket valuation of the top 20 in 1964 was nearly one-half of the total value of the S&P 500 Stock Index, while today it is less than 30%. But in 1964 the top companies were growing no faster than the overall economy - in part because they were a large part of the economy.

The fact that today's top 20 are growing twice as fast as the top 20 in the past is significant. Today's leaders are significantly smaller large relative to the total economy than those in 1964. The total employment of today's top 20 is only 12% of the employment of all firms in the S&P 500 Stock Index, and Wal-Mart employs nearly one quarter of this total. Today's firms can, if

circumstances remain favorable, continue to grow significantly faster than the economy without bumping into economy-wide constraints on growth rates.

### Globalization of the world economy

The emergence of the global marketplace is one of the defining events of this century. Just ten years ago more than one-half of the world's population was either too poor to buy Western brand name goods or prohibited from doing so by governments that dictated consumer choice. The developing nations currently consume only about one-quarter of the world's output, yet they contain well over one-half the world's population.

Prospects for global economic growth have dimmed considerably over the past year. A review of the sources of the current crises is important to understanding its resolution. Over the past decade as countries freed their economies of import and capital restrictions, an unprecedented, and in many cases excessive level of investment capital flowed to the emerging markets.

There was no way that all this capital could be invested productively, especially over such a short period of time. With local financial markets unable to signal the efficient allocation of resources, capital was committed to industries under the assumption that double-digit growth would continue forever. Oversupply was inevitable.

When capital fled and the local currencies crumbled, dollar-denominated debt overwhelmed other asset values. The current turmoil has raised the prospects of protectionism, widespread currency controls, and a contraction of international trade that threatens world economic growth.

Despite their gloomy short-term trends, the long-run prospects for most of these developing countries are not bleak. Their workforces are educated and well-motivated. Their currencies are suffering from crises which are not unlike the banking and liquidity panics that the industrialized world suffered in the nineteenth century. Then investors and depositors sought to convert to gold. Today they seek the modern symbol of stable value the US dollar.

Notwithstanding the rise in trade and capital restrictions, the world will not retreat to the closed societies of the past. The communications revolution means that images of a more affluent lifestyle through movies, videos, television, and now the internet - are or will soon be available to almost all the world's inhabitants. Their desires to improve their standard of living cannot be suppressed, and Western technology and brand names will be avidly pursued as the developing nations

recover from their current crises. The recovery of the global economy, although it might take a good part of the next decade, can still be a significant long-term source of profit for US firms.

### Implications for Today's Valuations

There are reasons to be cautiously optimistic that future earnings growth may accelerate somewhat from its historical norm. But history should make us cautious of proclaiming that "This time is different." At market peaks optimists have frequently argued that stock prices were justified on the basis of "new era" conditions that negated old yardsticks for measuring stock values. More often than not, the traditional yardsticks reassert themselves and send stock prices downward.

But even if earnings growth does not accelerate and all the optimistic claims of the new era advocates prove false, stocks at current elevated levels still emerge as the long-run asset of choice. As noted earlier, if stocks remain at a high price-to-earnings ratio of 20, this still implies a 5% after-inflation return, and a 6% to 7% nominal return if inflation remains at its current unusually low levels.

Even if the promise of global markets boosting profits fades and the communications and technology revolution does not enhance earnings, stock returns should still exceed bond returns in the long run. Since the long bond yields close to 5% with no inflation protection, stock returns to beat bonds by at least one to two percentage points per year. Although this advantage is far smaller than found in the historical data, and probably below what most investors hope to obtain, it is not an unreasonable margin given the long-term historical risks and returns of a diversified stock portfolio.

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*Stocks, Bonds, Bills, and Inflation*, Ibbotson Associates, Chicago, Illinois, 1998

## CENTER ANNOUNCEMENTS

All lectures listed below will be, unless otherwise indicated, at 7:30 pm in the SVC Science Amphitheatre.

January 27, 1999

Alex G. McKenna

Economic Education Series

Dr. Robert J. Shiller - Stanley B. Resor

Professor of Economics, Yale University.

"Risks to our Incomes in the Long Term."



February 18, 1999

Government and Political Education Series

Dr. Harvey C. Mansfield - Professor of Government, Harvard University.

"Machiavelli's New Prince."

March 10, 1999

Environmental Economics Conference

Dr. Richard Stroup - Professor of Economics, Montana State University.

"Property Rights, Morality and Environmental Policy." Lecture at 7:30.

Other speakers to be confirmed.

March 24, 1999

Government and Political Education Series

Joseph M. Bessette - Associate Professor of Government, Claremont McKenna College

"Justice and Punishment: Crime, Public Opinion, and Democratic Politics"

April 15-17, 1999

Public Morality, Civic Virtue, and the Problem of Modern Liberalism,"

CONFERENCE PRESENTERS:

Dr. Peter Berkowitz, Associate Professor of Government, Harvard University,

"Public Philosophy and Postmodernity;"

Dr. Walter Berns, Resident Scholar,

American Enterprise Institute, John M.

Olin University Professor Emeritus,

Georgetown University, "The Cultivation

of Citizenship and Statesmanship;" Dr. Mark Blitz, Fletcher Jones Professor of Political Philosophy, Claremont McKenna College, "Liberal Freedom and Responsibility;" Dr. Douglas J. Den Uyl, Professor of Philosophy, Bellarmine College "The Formation of Character and Modern Liberalism;" Dr. Jean Bethke Elshtain, Laura Spelman Rockefeller Professor of Social and Political Ethics, University of Chicago Divinity School, "Civil Society and Moral Consensus;" Dr. Leonard P. Liggio, Research Professor, George Mason University School of Law, Executive Vice President, Atlas Economic Research Foundation, "Liberty and Order in the Western Tradition;" Dr. Daniel J. Mahoney, Associate Professor of Politics, Assumption College, "Liberal Democracy and Moral Foundations;" Dr. Wilfred M. McClay, Associate Professor of History, Tulane University, "Judeo-Christian Tradition and Liberal Tradition in the American Republic;" Dr. Gilbert Meilaender, Board of Directors Professor of Christian Ethics, Valparaiso University, "Human Nature and Moral Relativism;" Dr. Christopher Wolfe, Professor of Political Science, Marquette University "Natural Law and the American Political Order;" and Dr. Catherine Heldt Zuckert, Professor of Political Science, University of Notre Dame, "The Philosophical Roots of the Moral-Cultural Decline."

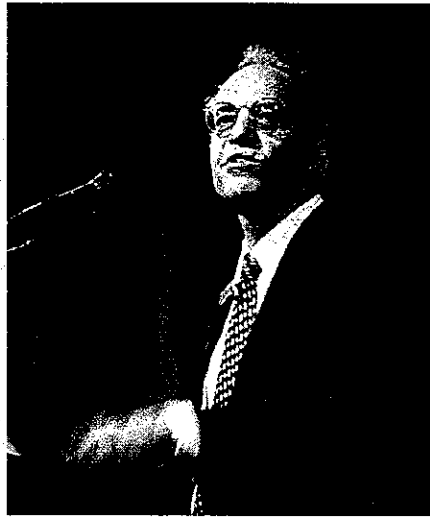
May 18, 1999

Government and Political Education Series lecture/luncheon at the Duquesne Club

#### George Washington Fellowships

The 1998 winners are Nicholas Racculia, C 00; Eric Kowalski, C 99; Cecilia Dickson,

C99; and John Hill, C 99. The Fellowships are sponsored by the Philip M. McKenna Foundation. Specifics related to the Fellowship are provided at the Center's website [www.stvincent.edu/cepe](http://www.stvincent.edu/cepe).



#### Congratulations

to RJ Pestritto, Center's Fellow in Politics and Policy, and his wife Barb on the birth of their second child, Carmelina Agnes, on October 4, 1998.

#### T. William Boxx &

Gary Quinlivan's newest edited collection, *Toward the Renewal of Civilization: Political Order and Culture*, has been published by Eerdmans, ISBN: 0-8028-4534-7. Contributors include: Hilton Kramer, Claus Ryn, Joyce Little, Charles R. Kesler, William B. Allen, Stephen J. Tonsor, III, Elizabeth Fox-Genovese, Robert P. George, Hadley Arkes, Martha Bayles, Dinesh D'Souza, and Ralph McInerney.

## About the Series

The Alex G. McKenna Economic Education Series is presented by the Center for Economic and Policy Education at Saint Vincent College. These periodic lectures are open to the general public. The purpose of the series is to explore the role of free markets in solving many of the social problems confronting the United States and the world today. Dr. Gary M. Quinlivan, professor of economics at Saint Vincent, directs the series. Up to date information about the Center can be obtained on the web at [www.stvincent.edu/cepe](http://www.stvincent.edu/cepe).

The Alex G. McKenna Economic Education Series is made possible by grants from the Philip M. McKenna Foundation, Inc.

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**ECONOMIC  
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