VALUES

Walden Asset Management ❁ Investing for Social Change Since 1975

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In This Issue

Walden Asset Management

A Division of Boston Trust & Investment Management Company

40 Court Street
Boston, MA 02108
Tel: 617.726.7250
Fax: 617.227.3664
www.waldenassetmgmt.com

HIV/AIDS as a Business Imperative

Human suffering and loss caused by HIV/AIDS is escalating at a catastrophic pace globally. Despite advances in treatment and prevention that may have lulled many in the United States into believing the pandemic is under control, a staggering 39.4 million people worldwide are infected, according to the United Nations Program on HIV/AIDS (UNAIDS). That includes more than 17 million women and 2 million children. The magnitude of a crisis that causes illness and death slowly can be difficult to grasp, especially compared to fast-occurring disasters such as last December's devastating tsunami. Yet in 2004 alone, 4.9 million people were newly infected and there were 3.1 million AIDS deaths—more than ten times the loss of life attributed to the tsunami. Dr. Peter Piot, executive director of UNAIDS, stated in a February speech at the London School of Economics that, "An 'epidemic equilibrium' or plateau is nowhere in sight."

Heidi Soumerai is Director of Social Research.

Sub-Saharan Africa has suffered most from the pandemic and accounts for more than half of global HIV/AIDS cases, with some countries reporting prevalence rates among adults at 40 percent and rising. Simultaneously, HIV/AIDS is spreading rapidly through Asia, Latin America, and Eastern Europe. According to Piot, "Within the next decade, the Asia-Pacific region, with a population five times that of sub-Saharan Africa, could easily become the next epicenter of the epidemic, with every small increase in HIV prevalence translating into tens of millions of ominously people infected."

A Business Issue?

The enormous human hardship and the damage to the social fabric of communities caused by HIV/AIDS are well recognized, as is its link to poverty. But should the global pandemic also be a business concern? The answer is an unequivocal "yes." The disease disproportionately strikes men and women at the prime of their working lives. The depletion of human capital and diversion of resources is a significant business and economic risk in deeply affected areas. The negative impacts are many: a shrinking labor force; loss of productivity; diminished skills, experience and transference of knowledge; and increasing health care costs, among others. For example, in the absence of far higher treatment rates in Africa, Piot projects that by next year, 11 sub-Saharan countries will have lost more than every tenth person in their labor force to AIDS—and by 2010, five countries will have lost more than every fifth person in their labor force.

The British-South African mining conglomerate, Anglo American plc, with its extensive operations in Africa, has had to tackle the HIV/AIDS crisis head on. Estimating that 30,000 of its 125,000 employees in South Africa are infected, the company implements its own treatment and prevention programs for workers and their families that, beginning in 2002, included providing anti-retroviral drugs (ARVs). And the program is working. At the International AIDS Conference last summer, Anglo American reported that program costs were

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About Walden Asset Management

Walden Asset Management is the socially responsive investment division of Boston Trust & Investment Management Company. Walden began offering socially responsive investment services in 1975. We are among the largest and most experienced investment managers specializing in services for individual and institutional investors with social concerns.

Contributors:

Bill Apfel
Carlos Arenas
Meredith Benton
Ken Scott
Tim Smith
Heidi Soumerai

Heidi Soumerai: *Editor*

Meredith Benton: *Associate Editor*

Mark Cushing: *Cartoonist a.k.a. Director of Marketing*

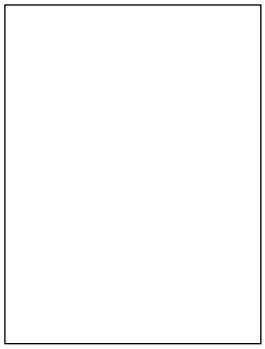
Sandy Kendall: *Copy Editor*

Angela Mark: *Layout, Red Sun Press*

TRADING YOUR SAFETY NET FOR "OWNERSHIP"

Second term presidents usually focus on foreign policy because that is the sphere in which their constitutional powers are greatest and where election-minded legislators are least likely to meddle. So far this has not been the case with President Bush.

After an election campaign that was built on the argument that he was the candidate best equipped to defend America against terrorism, and an inaugural address devoted to the idea that America's mission was to spread liberty around the world, the president abruptly turned his attention to the reform of Social Security, promising to make it his number-one domestic priority. If Bush follows through, it will be a remarkable testament to his belief in the urgency of the issue and his willingness to confront the political minefield it will surely unearth. It is not as though there were no major issues still at stake around the world to demand his attention—one need only mention the troubles still brewing in the Middle East and the spectacular failure, thus far, of his efforts to stop the North Korean's program to acquire and expand its nuclear arsenal.



Bill Apfel is a Senior Portfolio Manager and Director of Securities Research.

Why, then, this headlong march to grasp the "third rail of American politics"? I think we can readily dismiss the argument that social security is bound for a fiscal crisis so huge and immediate that future beneficiaries should worry that the funds to pay their benefits will simply be unavailable. Indeed, as of this writing, even some of the administration's spokespeople seem to be easing away from the "imminent crisis" rhetoric. Pensioners bear no more risk that they will not be paid than any other holders of a government guarantee. All those IOUs held in the Social Security trust fund that sometimes are referred to as "just so much paper" are in fact the best financial guarantee in the world: the full faith and credit of the U.S. government. True, the system for paying benefits, according to the current guess, will begin to fall short in 2042, when payroll taxes might cover just about 75 percent of the projected average pension. But that hardly constitutes a crisis. To put this number in perspective, the entire shortfall could be eliminated by some modest tinkering with the key revenue and benefit formulas: a higher cap on wages subject to payroll taxes; a rise in the age when benefits begin, reflecting increases in life expectancy; or an overall reduction in benefits. Indeed, the system's health could be secured for the next 75 years simply by cutting the average retiree's benefit by about $1,850 per year in today's dollars, or just 13 percent.

So why is President Bush so intent on revamping the system? My belief is that the proposals being floated represent nothing less than a major step toward recasting the government's role in providing a safety net for our elderly, and a rejection of the whole idea of mandatory insurance against want for retirees. There is simply no credible case for claiming that the proposed reforms are only about a better way to provide a generous retirement benefit or to shore up a failing system. This is the administration's "ownership society" in its first and most important incarnation: Greatly reduced government guarantees of retirement security, private accounts in which Americans plan for their own futures, and exposure for all to the opportunities and risks of the financial markets.

Here is the impact of the anticipated proposal on a worker born in 1990, who earns the relatively high average annual lifetime wage of $58,000 (in 2004 dollars): a cut in the guaranteed annual benefit from $28,863 to $18,406, or 35 percent, if the retiree opted not to participate in the private account program; or, alternatively, a reduction in the guaranteed benefit to just $2,191 if the same retiree chose to

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community development investing

THE NICA FUND

Genaro and Albertina Lopez live in a squatter village on an abandoned airstrip outside the city of Ocotal, in northern Nicaragua, one of the poorest regions of the country. The poverty they live in is sobering. The floor of their house is dirt. One can see through the spaces between the boards of their hastily built house. They have few possessions, and the clothes they wear are threadbare. By any conventional standard, they appear to be a terrible credit risk.

Genaro and Abertina have received credit, however, from the Foundation for the Development of Nueva Segovia (FUNDENUSE) through a group lending program. FUNDENUSE is one of 13 microcredit groups in Nicaragua that received capital from the Nicaraguan Credit Alternative (NICA) Fund, a credit program administrated by the Wisconsin Coordinating Council on Nicaragua (WCCN). WCCN is a nonprofit organization based in Madison that channels money from socially concerned investors in the United States to alternative credit organizations in Nicaragua.

FUNDENUSE is one of the few microfinance institutions in Nicaragua that uses group lending methods where borrowers co-sign on each other's loans in lieu of collateral. Because of FUNDENUSE's group lending program, people like Genaro and Albertina have access to credit and the opportunity to make their lives better through their own efforts.

Genaro and Albertina have a small store in their house and a small nursery outside. They sell fruit trees to neighbors. Genaro also does construction work. The credit gets used to buy tools and stock for all of these ventures. The Lopez family is new to microcredit, but the benefits are already evident: They are building their businesses and improving their lives while making all of their interest and principal payments on time. Albertina says that before she got access to credit, she assumed that she would live poor and die poor. Now, she sees hope that she can live a comfortable, dignified life.

Genaro and Albertina Lopez stand with their family outside their home in northern Nicaragua.

Nicaragua has one of the youngest microcredit industries in Latin America. The first microcredit organization in Nicaragua was founded in 1991, and WCCN has been involved since then. In 1998 WCCN launched its current lending program, the NICA Fund, to expand its outreach and partner with the best credit providers in the country, such as FUNDENUSE.

It is fair to say, though, that despite its youth, after a period of learning by doing and after receiving technical assistance from different international organizations, Nicaragua's microcredit industry is now very well consolidated. In fact, it is the star of the microcredit industry in Central America, with the biggest portfolio and the biggest number of borrowers reached. That is an amazing accomplishment and a sign of hope for a country that is the second poorest in the Western Hemisphere.

Currently, the NICA Fund is lending to 13 partner organizations, and has an outstanding portfolio of around $5 million dollars. All the partner agencies of the NICA Fund have a 100 percent record of repaying their loans in full and on time.◆

—C. Arenas

Carlos Arenas is Executive Director of Wisconsin Coordinating Council on Nicaragua. For more information, U.S. investors can call (608) 257-7230 or visit http://www.wccnica.org/nica.html

Through our Community Development Investment Service, Walden clients have invested over $8 million in community development banks, credit unions, and loan funds. We are pleased to have included the NICA Fund in this service.

SOCIAL RESEARCH AND ADVOCACY IN ACTION

Meredith Benton is a Social Research Analyst.

Tim Smith is Director of Socially Responsive Investing.

The company briefs below report on the progress of shareholder initiatives led or participated in by Walden, as well as other newsworthy company actions.

Glass Half-Full...

To the pessimist, a number of political developments (such as cuts to Environmental Protection Agency funding and the dimming hopes for shareholder access to the proxy) would portend greater resistance to Walden's social, environmental and corporate governance concerns. However, this winter, Walden has continued to successfully engage companies on issues of concern to our clients.

In November, **Johnson & Johnson** agreed to reduce and replace packaging containing PVC, a difficult to recycle plastic that can contaminate the recyclable plastic waste stream. The company stated that its goal is to avoid PVC in consumer product packaging. **IBM** has agreed to report on its computer recycling in 2003 and 2004 using standardized metrics, though IBM's future practices will be affected by the impending divestiture of its PC business.

Three Walden-led resolutions requesting that **ALLTEL, Gentex,** and **Carlisle** adopt more inclusive employment nondiscrimination policies were withdrawn after these companies added "sexual orientation" to their policies. More than 80 percent of Fortune 500 companies now include sexual orientation within their nondiscrimination policies. **ExxonMobil**, where Walden assisted clients in co-filing a shareholder resolution, is the remaining member of the Fortune 100 to be without an inclusive policy.

In October, **Gillette** took steps to declassify its board and implement annual elections of directors to increase board accountability. Walden had been advocating for this governance reform through the proxy resolution process, and the reform was supported by a majority vote of shareholders in 2003 and 2004. Last month, however, **Procter & Gamble**, which has a classified board structure, agreed to purchase Gillette.

Walden also continues to lead discussions with **TJX Companies** regarding its vendor compliance program. In the last year, the company has taken a number of positive steps, including the hiring of a full-time staff member to oversee its social compliance program.

Walden is on the steering committee of a newly formed coalition, the Social Investment Research Analyst Network (SIRAN), which involves over 30 investment firms. Walden participated in a SIRAN statement urging corporations to strengthen corporate social responsibility reporting using the standardized Global Reporting Initiative (GRI) framework. We are working with this group to encourage companies to expand annual reporting of

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Selected Winter 2005 Advocacy Initiatives

ENVIRONMENTAL IMPACT	
Climate Change	American International Group, Apache, Biomet, Exxon Mobil
Recycling	Coca-Cola, Dell, Hewlett-Packard, IBM, Johnson & Johnson, PepsiCo, Pfizer
Water Use	Applied Materials, Clorox
EQUALITY	
Nondiscrimination Policy	ALLTEL, Carlisle, Exxon Mobil, Gentex, Jabil Circuit
Equal Employment Opportunity	Amgen, Home Depot, Wal-Mart
INT'L LABOR/HUMAN RIGHTS	
Vendor Standards	Dell, Federated Department Stores, Hershey's, Hewlett-Packard, Home Depot, IBM, TJX
HIV/AIDS Reporting	Colgate-Palmolive
CORPORATE GOVERNANCE	
Political Contributions	BellSouth
Staggered Boards	Costco, Gillette, TJX
GENERAL SUSTAINABILITY	
	Bank of America, BP, Intel, Novartis, Pfizer, Staples, Timberland

SOCIAL RESEARCH AND ADVOCACY IN ACTION

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key social, environmental, and corporate governance policies, practices, and results.

Seeing CEOs

In what an optimist might consider an indication of the increasing importance of both corporate social responsibility and responsiveness to investor concerns, a number of CEOs have recently met with Walden and other investors to discuss social, environmental, and corporate governance programs.

Timberland's CEO, Jeffrey Swartz, attended a meeting where he discussed the company's work with tanneries around the world to encourage strong environmental management. The company is also actively looking for ways to improve its Equal Employment Opportunity statistics, and has tied Swartz' compensation to improvements in diversity. Timberland is held in the SmallCap Innovations portfolios offered to Walden's clients.

AIG's CEO, Hank Greenberg, met with Walden and other SIRAN analysts in January. At this meeting, he discussed the company's views on the recent regulatory proceedings affecting the company, employee policies, and environmental policies. We were surprised to hear that he believes that the United States should have ratified the Kyoto Protocol. AIG has also committed to issuing a corporate social responsibility report.

Wal-Mart's Lee Scott attended a meeting convened by the Interfaith Center for Corporate Responsibility and spoke to the company's social, environmental, and corporate governance program. He committed the company to greater transparency and engagement with stakeholders.

Fill 'Er Up

Lest the pessimists continue to see the glass as half empty, we are pleased to report a number of additional positive advancements.

Regarding vendor standards, **Jones Apparel Group** has expressed its plans to develop a pilot vendor monitoring program in factories in six countries and will report on the results. The apparel industry is also working on developing a shared database allowing retailers to see the results of others' factory labor audits. By sharing workplace compliance data, smaller retailers will be able to better watch over their supply chains, and larger retailers may be able to more efficiently allocate resources, by not overlapping another company's auditing.

Sixteen companies held in many client portfolios or in the SmallCap Innovations portfolios are well represented on Fortune's 100 Best Companies to Work For list, published in its January 24 edition this year. These are: **Republic Bancorp** (#3), **J.M. Smucker** (#6), **Adobe Systems** (#13), **Cisco Systems** (#27), **Whole Foods Market** (#30), **Amgen** (#33), **Timberland** (#38), **A.G. Edwards** (#56), **Microsoft** (#57), **Procter & Gamble** (#66), **Medtronic** (#71) **Pfizer** (#76), **Wm. Wrigley Jr.** (#77), **MBNA** (#89), **John Wiley and Sons** (#95), and **FedEx** (#96). Companies were commended for a broad range of reasons, including high 401(k) matching (Amgen), pleasant offices with amenities (John Wiley & Sons), an indoor track (A.G. Edwards) and child care centers (Pfizer, MBNA). ◆

—M. Benton

YOU THINK YOUR VOTE COUNTS? THINK AGAIN.

How are corporate directors really elected? This question—one of the least discussed mysteries in corporate governance—is finally surfacing for a needed debate. Most people assume that shareholders vote "for" or "against" a candidate and that directors are elected by a majority of votes cast. The reality is far different.

Investors do not have a choice to vote "for" or "against," but instead vote "for" or "withhold," which sends only a symbolic message to the board when counted. Even SEC Chairman William Donaldson has voiced his concern about this peculiar process. Indeed, many commentators describe it as a "soviet style" election: The Nominating Committee proposes a slate of directors, they run unopposed, and they are elected no matter how small the number of support votes they receive. In fact, a director could receive only her or his own "for" vote and still be elected. This is no way to create a responsive board, which, after all, is in place to represent shareowner interests. It is time to change the election process so board members are authentically elected by, and become accountable to, shareowners.

In recent years there have been several highly visible "vote no" campaigns. In 2004, Disney's Michael Eisner received an amazing 43 percent "withhold" vote following a campaign by investors unhappy with his leadership and Disney's performance. Proxy voting firms are also withholding votes from directors when a board ignores a previous majority vote on a specific reform.

For 2005, a number of building trade unions, led by the United Brotherhood of Carpenters and Joiners, have submitted shareholder resolutions to more than 75 companies asking them to amend their corporate governance policies so that director nominees must be elected by an affirmative majority of votes cast. Walden is voting in favor of these resolutions and writing companies to explain why.

But this should be a universal standard, not one held only by specific companies. The American Bar Association (ABA) is studying changing its "Model Business Corporate Act," a welcome way of addressing this needed reform system-wide. The Act provides a blueprint for states, and about 30 of them pattern their laws after the ABA model.

Changing the election process would be a substantial reform in governance. Directors needing a "for" vote greater than 50 percent to be elected would surely see a large "withhold" vote as a worrying sign of investor dissatisfaction and would work to become more responsive and accountable. ◆

—T. Smith

A QUIET LEADER

For two years, Walden has been leading an investor coalition asking Colgate-Palmolive to report on the impact of HIV/AIDS on its global operations. We believe Colgate's policies and practices show true leadership, and, more than most companies, it has adapted lessons learned in Africa to address HIV/AIDS proactively in other regions with rapidly growing infection rates. Unfortunately, the company has not made much information on this work publicly available.

Last May, Colgate executives arranged for us to meet in New York with Dumisane Khuzwayo, Director of Human Resources in South Africa. In some detail, he outlined the impact of HIV/AIDS on Colgate's operations in Africa, and how the company responds country by country to complement local government responses (or lack thereof) to the pandemic. Its initiatives are multi-pronged, involving the formation of committees, education and awareness training, medical care and support, community outreach and collaboration with non-government and business organizations.

In January, Colgate's President of Asia Pacific, Fabian Garcia, led a discussion with our investor group on the company's progress to confront HIV/AIDS in his territory. He welcomed input from the investors and openly addressed Colgate's progress, challenges and goals, also on a country by country basis. Colgate has plans to develop programs in other regions as well.

No doubt, advances at Colgate to tackle HIV/AIDS reflect the strong support of senior executives. Our meetings included representation from the Office of the Chairman and involvement at the board-level was apparent. The commitment and leadership shows in Colgate's broad-based and expanding programs. Our challenge as investors is to persuade Colgate to be more public about its approach – to be a model for other companies that are less quiet but perhaps not nearly as far along. ◆

HIV/AIDS AS A BUSINESS IMPERATIVE

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"offset by the sharp decline in mortality—from 30 percent to 3.4 percent in the first year—and in absenteeism due to illness."[1]

A crisis of this scale requires a global, multifaceted response involving governments and nongovernmental organizations, as well as the private sector. Pharmaceutical companies, with their life-extending drugs, have a unique role in helping provide accessible and affordable treatment, notwithstanding the complexities associated with intellectual property rights and the high cost of research and development. But what can the role of major private sector employers be?

A consensus on this issue is emerging, and perhaps is best embodied in the Global Reporting Initiative (GRI) HIV/AIDS Resource Document published in November 2004. (GRI is a multi-stakeholder independent organization working to develop and implement global sustainability reporting guidelines.) The HIV/AIDS Resource Document provides a standardized format for reporting on policies and practices to combat the pandemic. Reporting benchmarks also help companies, investors, research and advocacy organizations, and others to evaluate a corporation's policies and programs and identify "best practice" responses to HIV/AIDS. GRI established performance indicators in four broad categories: 1) governance; addressing policies, planning, and risk management strategies; 2) measurement, monitoring, and evaluation of infection rates and costs, actual and estimated; 3) workplace conditions; management of HIV/AIDS programs, and respect for human dignity and legal rights; and 4) depth, quality, and sustainability of prevention and treatment programs.

A Leader Emerges

Religious investors, through the Interfaith Center on Corporate Responsibility (ICCR), were heartened last spring when Coca-Cola Company agreed to recommend that shareholders vote "for" ICCR's proxy resolution which called for a public report on the impact of HIV/AIDS on its operations. Companies rarely endorse shareholder resolutions and Coca-Cola was the first to do so on this issue. The resolution passed with 98 percent support. The Coca-Cola "system"—Coca-Cola Company's 1,500 own employees and 60,000 employees in its bottling partner network—is the largest private sector employer in Africa. Late in 2004, the Coca-Cola Africa Foundation published *Our HIV/AIDS Initiatives in Africa,* which documents policies and initiatives for employees and their families, reaching 300,000 people across the continent. Coca-Cola's programs include establishing local HIV/AIDS committees, training in-house peer educators, monthly prevention and awareness training, offering free condoms, providing confidential voluntary testing and counseling, employee assistance programs and, perhaps most importantly, ARVs and medical coverage for afflicted employees and their families. In the words of the president and chief operating officer of Coca-Cola Company in Africa, Alexander Cummings, "The moral and business imperatives are of equal importance as we mobilize the Coca-Cola system's resources and those of the Coca-Cola Africa Foundation to help in this fight." ◆

—H. Soumerai

[1] Catherine Arnst, "Why Business Should Make AIDS Its Business," *Business Week*, August 2, 2004, p.78.

cutting edge companies

SPANISH BROADCASTING SYSTEM

You may not be surprised that Howard Stern has often ranked #1 among New York radio listeners. But you may not know that Stern has been challenged for this top spot by Luis Jimenez, "El Vacilón de la Mañana," the radio morning personality on WSKQ-FM *La Mega* 97.9.

Jimenez has nearly one million listeners around the country. He is among the marquee talent for Spanish Broadcasting System. Jimenez's counterpart in Los Angeles, Renán Almendarez Coello, "El Cucuy de la Mañana," of KLAX-FM *La Raza* 97.9, has a multigenerational listening audience of two million. Coello often ranks as the #1 radio personality in the fiercely competitive L.A. radio market. The success of Spanish Broadcasting talent is such that in November 2004 the company agreed to syndicate three of its morning shows to ABC.

Based in the Coconut Grove suburb of Miami, Florida, Spanish Broadcasting is the largest Hispanic-controlled radio broadcasting company in the United States. Five of seven board members and two of three senior executives are Hispanic. Spanish Broadcasting and its primary competitor Hispanic Broadcasting account for more than half of the U.S. Spanish-language radio market. Spanish Broadcasting owns or operates 20 Spanish-language radio stations in seven of the top-ten U.S. Hispanic markets, including New York, Los Angeles, Miami, Chicago, San Francisco, San Antonio, and Puerto Rico. The programming at its radio stations is primarily traditional music.

The growing U.S. Hispanic population is driving the success of Spanish-language radio. According to the U.S. Census Bureau, there were 37 million Hispanics in the United States in 2002, or 13 percent of the total U.S. population. Spanish-language radio stations now account for approximately 7 percent of radio listening nationwide.

Spanish-language radio's growing audience is attracting advertisers—and competition. Radio industry behemoth Clear Channel has launched Spanish-language radio stations, and competitor Hispanic Broadcasting was purchased recently by Univision. In response, Spanish Broadcasting sold a 10 percent stake to media conglomerate Viacom.

Look out, Howard.◆

—K. Scott

TRADING YOUR SAFETY NET FOR "OWNERSHIP"

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participate fully in the private account option. In the latter case, a portion of payroll taxes would be diverted into one or more of the investment choices offered by the plan.[1] A retiree would need to have earned a return of about 3 percent above inflation on his or her private account just to be left with the same benefit as the person opting out of the private system. Recall that even this sum is 35 percent less than the benefit under current law. If the private account produces the 4.6 percent return that proponents have forecast (and that seems a very aggressive estimate to us), the total benefit earned would still fall more than 10 percent short of the provision mandated by current law. No additional safety net is contemplated for those whose investments fare worse than these forecasts. Obviously, big projected returns on these accounts are simply the other side of big risks.

Should we dismiss the reform proposals out of hand? I don't think so. The president presents an alternative approach to financial security that deserves to be evaluated. But let's debate the merits of the president's ownership society, not the relatively minor adjustments needed to put the Social Security system on sounder financial footing. Despite the packaging of these reforms as a modernization of the original Social Security system, the administration is proposing a fundamental departure from the past—a first step toward dismantling the most important of the social programs conceived by Franklin Roosevelt. It is based on the passionately held belief that by cutting back on America's safety net we will foster a stronger work ethic and a more vigorous economy, that self-reliance is the bedrock of our values, and that enthusiasm for the market system will be bolstered as more Americans have an ownership stake in American companies. It rejects the contrasting view that our economy will be better served if our citizens are protected from the often unpredictable cyclical and personal determinants of their financial welfare.

This is very different from the "freedom from want" that Franklin Roosevelt sought in launching Social Security. Roosevelt conceived an insurance system that he hoped would protect Americans from the disasters that could befall them in retirement, through the loss of a parent, or from disability, because, as he articulated in his famous dictum, "The only thing we have to fear is fear itself." The emphasis in Roosevelt's program would thus be on its provision of insurance. Some would surely put in more money than they would ever receive. But the insurance system would be a large step toward protecting each of us from the potentially immobilizing fear of financial catastrophe. A more financially secure citizenry would also foster a steadier economy and a sturdier social fabric. We should now be asking if this is a model we want to keep or one we want to replace. ◆

—B. Apfel

[1]David Wessel, "Some Bush-Style Social Security Scenarios", *The Wall Street Journal*, February 17, 2005, C1.

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