

# (Excerpted from the Washington Post)

---

## How Did Spending Become Our Patriotic Duty?

By Robert B. Reich

Sunday, September 23, 2001; Page B01

We're on the verge of a new kind of patriotism. A growing chorus is telling Americans that one of the best ways to demonstrate that the nation won't be cowed by terrorism is to continue to buy shares of stock and retail goods. Vice President Cheney said he hoped Americans would "stick their thumb in the eye of the terrorists and . . . not let what's happened here in any way throw off their normal level of economic activity." House Minority Leader Dick Gephardt proclaimed that Americans were "not giving up on America, they're not giving up on our markets." Treasury Secretary Paul O'Neill said, "We're going to show we have backbone." On Thursday night, President Bush asked Americans for their "continued participation and confidence in the American economy."

Call it market patriotism.

The theory is that we demonstrate our resolve to the rest of the world by investing and consuming at least as much as we did before, preferably more. The terrorists tried to strike at the heart of American capitalism. We show that American capitalism is alive and well by giving it as much of our credit card as possible.

So far, it doesn't seem to be working. As of the Friday close, the Dow was down 1369 points or more than 14 percent from its Monday opening. Early surveys show retail sales also dropping. Of course, Americans might have invested and consumed even less had they not been rallied to the cause. And these declines might well be reversed in coming weeks.

But spending seems like an odd way to demonstrate patriotism in any event. Patriotism normally suggests a willingness to sacrifice for the good of the nation -- if not lives, fortunes and sacred honor, at least normal creature comforts. But market patriotism suggests a strange kind of sacrifice: Continue the binge we've been on for years.

Usually, it's just the opposite in wartime. Consumers are asked to tame their appetites. And if voluntary restraints don't work, government resorts to rationing.

During World War II, each American was limited to a half a pound of sugar a week, and each family to three gallons of gas and modest portions of meat, fuel oil, coffee and cigarettes. Many consumer goods were simply unavailable. After 1942, you couldn't buy a new car because automakers had switched to making military vehicles. Silk stockings couldn't be found anywhere except perhaps on the black market. Even whiskey disappeared from shelves as distilleries converted to producing industrial alcohol. Meanwhile, consumers were solemnly instructed to save tin cans, scrap iron, paper and tires. Millions of housewives even signed a Consumer's Victory Pledge: "As a consumer, in the total defense of democracy, I will . . . buy carefully. I will take good care of the things I have. I will waste nothing."

But now, in fighting terrorists, our patriotic duty seems to be to buy more and save less.

The difference, of course, is that full-scale war mobilization requires a lot of the nation's productive capacity. The war effort comes first; consumer needs second. To make those priorities stick, consumer spending has to be constrained.

We're not in a full-scale war mobilization, and hopefully we won't be. In fact, right now America still has a lot of

productive capacity that's not being used, and that creates a problem of its own. The immediate economic threat isn't that we can't produce enough to meet demands. It's that there may not be nearly enough demand for what we can produce. And since consumer spending accounts for two-thirds of all economic activity, any hesitancy on the part of consumers could spell big trouble -- as it already has for the nation's airlines. The worry is that, having endured the horror of Sept. 11, and fearing more to come, American consumers will pull in their belts another several notches.

Keeping consumers confident has been especially important since the start of the downturn last year, because American consumers have almost single-handedly kept the U.S. economy afloat. Businesses have stopped buying much of anything. They overspent in the late '90s, mostly on capital equipment and software, and began cutting back last year at the first sign of trouble. The technology sector took the initial hit, but as profits continued to drop capital investment of all kinds plummeted.

Government isn't filling the gap. As long as the federal government has a budget surplus, it takes in more than it spends. Rather than spur demand, this reduces it.

So American consumers have been about the only bright lights in the global-capitalist firmament. If they cut way back on their buying, the bottom could drop out of the economy. And if the bottom drops out, it will be harder to mount a war against terrorism. Not economically harder—we would have even more productive capacity to spare, including a lot of unemployed people who could be put to work making all sorts of things even remotely connected to waging war—but politically and psychologically more difficult. A sharper economic downturn would unsettle a nation that's already rattled.

The exhortations to invest and consume are understandable. Yet the reality is that Americans are in no position to do what's being asked of them. Even before the terrorist attack, personal savings rates were nearing a 70-year low and personal debt was at record heights. Mortgage debt was in the stratosphere. Millions of consumers were already stepping back from the brink in recent months. In June, they paid down \$1.8 billion of their debts, and in July they took on no additional debt—the biggest two-month retreat from borrowing in nine years.

Consumers are also understandably worried about their paychecks. Nonfarm payrolls fell by 113,000 in August, and unemployment bounced up to 4.9 percent. The surge of layoff announcements in the past several months added to anxiety. The more than 100,000 layoffs announced just in the last week won't help.

And despite the patriotic calls to invest in the stock market right now, the sad truth is that many middle-income Americans got into the market way over their heads during the boom years of 1997 to 2000 and are now paying a steep price. Their spending binge after 1997 was fueled in part by the rapidly escalating value of their stock portfolios. They assumed they had fat nest eggs, only to discover this year that their nests contain tiny robin's eggs.

Just before the terrorist attack, the prudent thing for most families to do was to trim their budgets somewhat, pay down more of their debts, and put a bit more of their savings into bonds. After the terrorist attack, that's still prudent behavior. There's no patriotism in being a spendthrift, no heroism in exposing one's family to unwarranted financial stress.

Witnessing the mass murder of thousands of Americans is not the sort of experience likely to inspire a lot of trips to the mall or optimism about future share prices. But an appeal to patriotism isn't likely to have much effect when families are already overextended. Government could boost confidence far more effectively by putting more money in people's pockets. Since 80 percent of families pay more in payroll taxes than they do in income taxes, one obvious way would be to cut payroll taxes, at least temporarily. Another would be to expand unemployment insurance to cover more people who might lose their jobs in this downturn. Right now, less than 40 percent of job losers are covered.

If political leaders want a display of market patriotism, an appropriate target would be companies on the verge of announcing new rounds of mass layoffs. More big cuts will only erode consumer confidence further. Companies should be asked to forbear laying off more workers, if they possibly can, for at least the next six months. What better way of demonstrating we're all in this together and showing our patriotic resolve?

*Robert Reich, U.S. secretary of labor from 1993 to 1997, is University Professor of social and economic policy at Brandeis University, and founder and national editor of the American Prospect.*

© 2001 The Washington Post Company

[cigarettes more](#)

---