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For How Long Will Consumers Retrench?
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America's consumers are both the key to the economic recovery and the great unknown. They are saving much more than in recent years, which should bode well for the nation's longer-term economic prospects but also could keep the economy in the doldrums for some time to come.

That's because, as columnist Robert J. Samuelson notes this morning, consumers represent 70 percent of America's \$14.5 trillion economy. If consumers retrench, the economy grows slower than otherwise.

Why are Americans saving so much more now? The answer holds the key to how long they plan to save rather than spend, when they will reverse course, and whether we should applaud or fear their behavior.

Consumers are now saving about 6 percent of their after-tax income, compared to just 2 percent in 2007 and even less at some points in recent years. The 6 percent pales in comparison to saving rates in the decades immediately after World War II, though at most other times, economists would be applauding the current effort.

After all, the more families save, the more that they can invest in things like their children's education. The more America saves as a nation, the more that it can invest in plant and equipment, education and training, and other priorities that will strengthen the economy and raise living standards.

Unfortunately, today's economy desperately needs consumer spending. The government last week revised second-quarter growth downward to 1.6 percent (far below what's needed to reduce unemployment), corporations are too nervous to hire, housing and other sectors remain troubled, the Federal Reserve has limited remaining tools to spur growth, and the public seems opposed to major new public spending.

That's why this weekend's calls by former Clinton economic advisor Laura Tyson for a second major stimulus bill and by Yale economics professor Robert J. Shiller for renewed federal "revenue sharing" for states and localities face steep hurdles.

Evidence suggests that the 2009 American Recovery and Reinvestment Act prevented a deeper recession with higher unemployment and a slower return to growth, but the public is skeptical of such claims and appalled by current \$1 trillion-plus budget deficits. As the *New York Times'* Peter Goodman wrote yesterday, "The future is now so colored in red ink that running up the debt seems politically risky in the months before the Congressional elections, even in the name of creating jobs and generating economic growth. The result is that Democrats and Republicans have foresworn virtually any course that involves spending serious money."

Of course, with the economy shaky, you would expect Americans to retrench for awhile. Nearly one in 10 Americans are jobless; many others are worried about their jobs. Many families leveraged themselves heavily when the good times rolled, stocks remain volatile, and nobody seems to have a viable path out of this mess. You can hardly expect Americans not to pull back and use the opportunity of a weak economy to reduce their debts.

If that's what's happening, fine. Consumers will strengthen their balance sheets and soon return to spending. But another recent news story that received far too little attention makes you wonder. As the Associated Press reported over the weekend, "The United States birthrate has fallen to its lowest level in at least a century as many people apparently decided they could not afford more mouths to feed."

Buying a big-screen TV is one thing, having a child quite another. The former is a decision about a creature comfort, the latter a choice about much bigger costs over a much more sustained period. If many Americans are nervous enough to put off child-bearing, they will surely be nervous enough to continue saving at high rates, shedding debt, and focusing their spending far more on necessities than luxuries.

The implications are enormous because, as we have said, the policy well is dry. The Federal Reserve can't do much more, and the White House and Congress are hearing from the folks back home who think that spending is already out of control. If Americans turn into long-term pessimists – which would be a historical departure – we may be in for even more sustained trouble.