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Totally Spent

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WE'RE sliding into recession, or worse, and Washington is turning to the normal remedies for economic downturns. But the normal remedies are not likely to work this time, because this isn't a normal downturn.

The problem lies deeper. It is the culmination of three decades during which American consumers have spent beyond their means. That era is now coming to an end. Consumers have run out of ways to keep the spending binge going.

The only lasting remedy, other than for Americans to accept a lower standard of living and for businesses to adjust to a smaller economy, is to give middle- and lower-income Americans more buying power — and not just temporarily.

Much of the current debate is irrelevant. Even with more tax breaks for business like accelerated depreciation, companies won't invest in more factories or equipment when demand is dropping for products and services across the board, as it is now. And temporary fixes like a stimulus package that would give households a one-time cash infusion won't get consumers back to the malls, because consumers know the assistance is temporary. The problems most consumers face are permanent, so they are likely to pocket the extra money instead of spending it.

Another Fed rate cut might unfreeze credit markets and give consumers access to somewhat cheaper loans, but there's no going back to the easy money of a few years ago. Lenders and borrowers have been badly

burned, and the values of houses and other assets are dropping faster than interest rates can be lowered.

The underlying problem has been building for decades. America's median hourly wage is barely higher than it was 35 years ago, adjusted for inflation. The income of a man in his 30s is now 12 percent below that of a man his age three decades ago. Most of what's been earned in America since then has gone to the richest 5 percent.

Yet the rich devote a smaller percentage of their earnings to buying things than the rest of us because, after all, they're rich. They already have most of what they want. Instead of buying, and thus stimulating the American economy, the rich are more likely to invest their earnings wherever around the world they can get the highest return.

The problem has been masked for years as middle- and lower-income Americans found ways to live beyond their paychecks. But now they have run out of ways.

The first way was to send more women into paid work. Most women streamed into the work force in the 1970s less because new professional opportunities opened up to them than because they had to prop up family incomes. The percentage of American working mothers with school-age children has almost doubled since 1970 — to more than 70 percent. But there's a limit to how many mothers can maintain paying jobs.

So Americans turned to a second way of spending beyond their hourly wages. They worked more hours. The typical American now works more each year than he or she did three decades ago. Americans became veritable workaholics, putting in 350 more hours a year than the average European, more even than the notoriously industrious Japanese.

But there's also a limit to how many hours Americans can put into work, so Americans turned to a third way of spending beyond their wages. They began to borrow. With housing prices rising briskly through the 1990s and even faster from 2002 to 2006, they turned their homes into

piggy banks by refinancing home mortgages and taking out home-equity loans. But this third strategy also had a built-in limit. With the bursting of the housing bubble, the piggy banks are closing.

The binge seems to be over. We're finally reaping the whirlwind of widening inequality and ever more concentrated wealth.

The only way to keep the economy going over the long run is to increase the wages of the bottom two-thirds of Americans. The answer is not to protect jobs through trade protection. That would only drive up the prices of everything purchased from abroad. Most routine jobs are being automated anyway.

A larger earned-income tax credit, financed by a higher marginal income tax on top earners, is required. The tax credit functions like a reverse income tax. Enlarging it would mean giving workers at the bottom a bigger wage supplement, as well as phasing it out at a higher wage. The current supplement for a worker with two children who earns up to \$16,000 a year is about \$5,000. That amount declines as earnings increase and is eliminated at about \$38,000. It should be increased to, say, \$8,000 at the low end and phased out at an income of \$46,000.

We also need stronger unions, especially in the local service sector that's sheltered from global competition. Employees should be able to form a union without the current protracted certification process that gives employers too much opportunity to intimidate or coerce them. Workers should be able to decide whether to form a union with a simple majority vote.

And employers who fire workers for trying to organize should have to pay substantial fines. Right now, the typical penalty is back pay for the worker, plus interest — a slap on the wrist.

Over the longer term, inequality can be reversed only through better schools for children in lower- and moderate-income communities. This will require, at the least, good preschools, fewer students per classroom

and better pay for teachers in such schools, in order to attract the teaching talent these students need.

These measures are necessary to give Americans enough buying power to keep the American economy going. They are also needed to overcome widening inequality, and thereby keep America in one piece.

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