Editorial

The Thrift Imperative

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The stock market has been a scary place lately: new yearly lows followed by big daily gains, then more lows and so on. While no one fully understands these gyrations, we do know that markets become skittish when fundamentals are out of whack. There's arguably no more fundamental imbalance these days than the United States' low national savings - the amount Americans save minus the amount the government borrows. But don't expect to hear our nation's leaders talk about it.

From 2002 through 2004, the rate of national savings was lower than at any time since 1934. This year, savings are once again off to an anemic start. That's a problem for stocks because the market looks forward, and a lack of national savings means that both the private and government sectors must borrow to pay for all of the things we wish for ourselves, our progeny and our society, like modern industrial plants, secure retirements, good education and better health care. If current trends continue, the United States will borrow an unprecedented $1 trillion this year alone, mostly from abroad, a sum that is reflected in the nation's huge budget and trade deficits.

Any sane market analyst has to wonder how long that can last, and such underlying angst intensifies market swings.

How we got to this point is now sadly familiar. The biggest culprit is the Bush administration's profligacy, with tax cuts the most glaring driver of the swing from budget surplus to budget deficit over the past four years. Currently, the deficit offsets most of the economy's net private savings.

Individuals also do not save enough, as reflected in the widespread inadequacy of retirement savings. Some argue that the amount of personal savings is understated because it does not take into account the increase in housing values, which has many homeowners feeling flush. But elevated home values do not add to national savings.

Such wealth is not converted into cold hard cash until houses are sold, and at that point the money flowing into the sellers' pockets is simply money that is flowing out of the buyers' pockets. No new wealth is created unless a seller saves the windfall - which is generally not the case in today's consumer economy. Instead, sellers increase their purchasing power, while the saving rate declines and the country as a whole becomes poorer. The uncomfortable reality is that saving is possible only by deferring today's consumption, not by spending freely while one's house appreciates.

The most powerful way to increase national savings is to cut the budget deficit. To do that, President Bush and his allies in Congress must defer the gratification they would derive from showering more tax cuts on the affluent. Lawmakers should also refocus their efforts on increasing personal savings. For decades the emphasis has been on granting tax incentives to savers, and for decades the amount of personal savings has trended downward. Congress should instead encourage all employers to improve the structure of retirement savings plans in ways that have demonstrably increased participation, including automatic enrollment upon hiring and the automatic allocation of employee contributions.

The alternative is economic decline. The markets are right to be skittish.

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