



Amy Domini

# The buck starts here

Want a quicker exit from the financial crisis? Create new consumers by putting money into the hands of the lowest earners.

**A**S A STUDENT OF THE STOCK MARKET IN PARTICULAR, and therefore the economy, I find sometimes the simplest lessons are the most often overlooked. Common sense tidbits clearly point to actions the nation ignores. As we try to dig ourselves out of the financial crisis, it is important to focus on these. So I'll be pointing out the obvious. I start with the importance of redistributing income and wealth.

Now, remember your Economics 101 college course. There is such a thing as a multiplier effect. The purchase of a tombstone (an item that does not require a system of repairs and multiple uses) is not as good for the overall economy as the purchase of a similarly priced computer, which will require many purchases of electricity, Internet access, software and peripherals to maintain its efficacy.

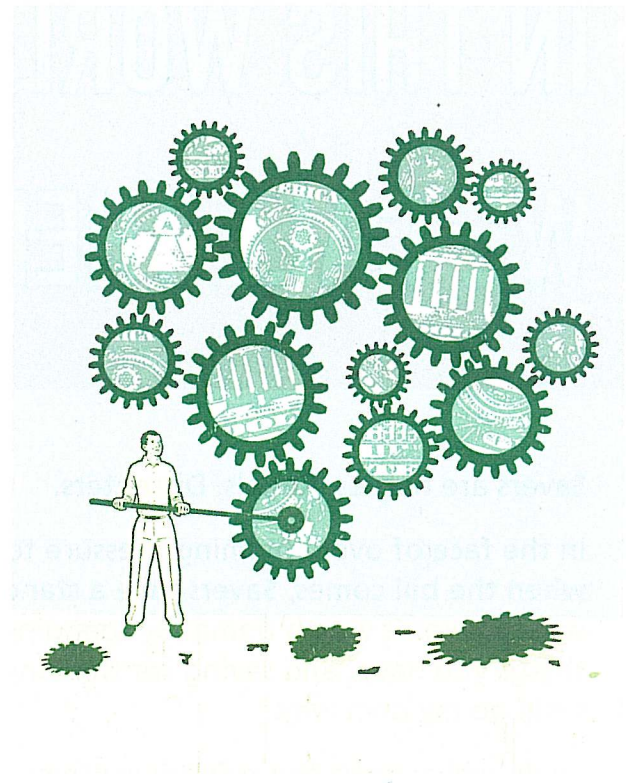
Buying a \$75 pair of shoes doesn't create the same level of economic stimulation as buying a \$50 pair of shoes and a \$25 bag of groceries. The first scenario helps roughly identical players as does the purchase of \$50 shoes. Buying shoes and groceries helps the infrastructure of the grocery supplier and the shoe vendor.

Next, recall that the economy in the U.S. is between two-thirds and three-quarters reliant on consumer spending, depending on who does the estimating. Ideally, this would mean public policy should be single-minded in its pursuit of new consumers; that is, getting money into the hands of those who will buy the less expensive pair of shoes and some groceries.

I am not the only one pointing this out. The U.S. Congressional Budget Office reviewed estimated output multipliers of each of the major provisions of the stimulus bill. They use a range of low to high. The best bang for the buck are federal purchases; next are transfers to states; next are transfer payments to individuals through food stamps, unemployment compensation, health assistance and the like. This came in as only slightly less valuable as federal and state spending and more than twice as useful as payments to retirees, tax cuts for higher income people or extension of first-time homebuyer credits. I repeat: more than twice as economically beneficial.

Economic policymakers should be adamant about getting money into the hands of the lowest wage earners. From a purely economic point of view, it does not matter whether the recipient earns this money or receives it as a gift. All this is to say, we are a long way, as a consumption-based economy, from creating policies that support us.

You may be asking about the stronger multipliers, government and state spending. Did you know that according to U.S.



Department of Labor statistics, the federal government, excluding the postal service, is the nation's largest employer, employing roughly 2 million civilian employees, the vast majority of whom work outside the Washington, D.C., area? Government spending is by definition a job-creation program.

When I began working in finance, we were taught that purchasing stocks (in American companies; others were not available) was a proxy for purchasing the economic might of our nation. Today that might has faded. The reason it has faded is that we are not deliberate about creating new consumers of the right kind.

Let's start spreading the word. Our self-interest, indeed the nation's economic well-being, starts with creating more people who can spend, even at the risk of creating fewer people who can spend billions. ■

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