America's Investing Identity Crisis

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by Robin Wigglesworth

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What compelled hundreds of thousands of people around the world to invest in the initial public offering of Elon Musk's SpaceX this summer? It certainly wasn't the company's financial metrics.

Despite the success of its core rocket business, the company is burning through a prodigious amount of money. Yet SpaceX still managed to pull off a record-breaking IPO, transforming Musk into the world's first trillionaire.

Although an outlier, the SpaceX IPO is not unique. It is merely an extreme manifestation of two remarkable trends that have become increasingly hard to ignore in financial markets: ordinary investors are a huge and growing force, and their feelings can often trump fundamentals.

This is becoming apparent around the world, but nowhere more so than in the U.S., where ordinary people have embraced speculation both as a way to get rich and as a reflection of their own beliefs with perhaps greater zeal than anyone else on the planet.

The first point is easy to quantify. Ordinary retail investors now account for over 20% of U.S. stock market activity, according to estimates by Jefferies, an investment bank. That is roughly twice the level of a decade ago and means that they now account for almost as much trading volume as mutual funds, hedge funds, and banks combined. The impact on markets is apparent everywhere.

The latter point is harder to prove with hard numbers, but the anecdotal evidence is heaping up. To the consternation of many traditional investors, what securities you buy have become almost like an extension of one's identity—whether that is the stock of a dowdy utility or racy computer games maker, cryptocurrencies, or even dabbling in the newfangled prediction markets.

Finance has long shaped America. But today, I would argue, this shape has become deformed. When did investing stop being merely financial and become an expression of identity? Why do individual Americans see investing as a chance to prove who they are and what they are worth?

And what does this pressure say about who America is as a country, collectively?

American stakes

The roots of this uniquely American phenomenon of conjoined identity and rampant speculation can arguably be traced back over a century to the titanic bond-sale program that financed the U.S. entry into the First World War.

When the U.S. formally declared war on Germany in 1917, the task of figuring out how to pay for the army, navy, and weapons America needed fell to President Woodrow Wilson's son-in-law, Treasury Secretary William McAdoo.

McAdoo was an athletic, photogenic, and decisive former lawyer and streetcar executive. He fizzed with energy and was as progressive in his business policies as he was regressive in his racial politics (McAdoo advocated forcefully for gender equality and what today we would call "stakeholder capitalism", but introduced segregation at the Treasury, and was later endorsed by the Ku Klux Klan when he unsuccessfully ran for president).

McAdoo knew that taxes alone couldn't shoulder the entire burden of the war, given the scale of the money needed. The problem was that the U.S. government bond market had by then shriveled up. The size totaled under $1 billion, and most of it was stuffed away in bank vaults rather than traded.

Moreover, most ordinary Americans were oblivious to what a bond even was. Wall Street bankers pointed out to McAdoo that there were probably only about 350,000 bondholders in a country of about 100 million inhabitants at the time. They therefore recommended that the Treasury Secretary limit his first bond sale to $1 billion, and target established investors with a juicy interest rate of at least 5 percent. Even this, they felt, would be ambitious.

Yet McAdoo balked at their pessimism. "It was true that [Americans] know little or nothing about government bonds, but we would tell them," he wrote in his memoirs. To thrill the public, he decided to dub the bonds "Liberty Loans," and set up a sprawling War Loan Organization to mass-market them.

Life, Liberty Loans, and the pursuit of happiness

It proved a stunning success. Wherever you went in the U.S. those days, you would gaze at a billboard, stumble over an exhibition, be handed a leaflet, enjoy a cake sale, be accosted at work, or get dragged into a march that were all designed to tout Liberty Loans.

When bankers initially struggled to communicate with the masses, celebrities like Charlie Chaplin were enlisted to burnish the pitch. Edward Bernays—often considered the father of modern public relations and the author of a pioneering book on propaganda in the

1920s—orchestrated sophisticated plays on patriotism, sentiment, or personal political yearnings to entice investors who might have been put off by the paltry interest rates on offer.

Often, the push to subscribe to a Liberty bond sale crossed over into crass shaming. Sometimes, so-called "dollar slackers" were even confronted with naked intimidation from groups who pressured people to buy bonds.

The Atlantic excoriated this as "borrowing with a club", and warned that "mob rule by the rich, with the able assistance of hoodlums" could stir support for socialists. Even future president Warren Harding complained that the selling drives were "hysterical and unseemly".

Nonetheless, Liberty Loans were genuinely popular. Buying them became a communal expression of belonging that crossed social, racial, and religious lines in a divided, polyglot nation. In fact, the War Loan Organization deliberately stoked competition among different groups to see who would demonstrate the greatest fealty to America—as evidenced by the volume of their bond purchases. This was particularly important for many women and Black Americans, who hoped that herculean efforts to help support the war might further their aspirations for equal treatment.

All told, the Treasury sold five low-cost mammoth Liberty Loans to finance the war, which raised an astonishing $21.4 billion. Relative to the size of the U.S. economy then and now, this is the equivalent of selling approximately $9 trillion of bonds today. Thus, an unprecedented feat of financial salesmanship transformed a war that was initially not overwhelmingly popular into a unifying national endeavor.

An investing identity crisis

Unfortunately, this unity quickly dissolved when the war was over, with America wracked by racial unrest, labor strife, and social tensions. Women received the right to vote in 1920, but the wartime efforts of Black Americans and other minorities were mostly ignored. McAdoo's later career was blighted by financial scandal and two unsuccessful Ku Klux Klan-supported tilts for the presidency.

Nonetheless, his Liberty Loans proved transformative for the fabric of America's financial system. It is hard to overstate just how impactful the bond sales were for the country's culture of investment.

Remember, when the Treasury Secretary first asked bankers for an appraisal of the Treasury market's health at the start of the war, they had estimated that only 350,000 Americans owned bonds. By the end of the conflict, about 34 million Americans had purchased some form of federal bond—over a third of the country at the time.

This spilled over into the stock market as well. Researchers have later studied the long-run county-level data on how American households save money and found that areas with greater Liberty bond program participation were far more likely to invest in bonds *and* stocks in the future as well. In fact, a paper published by the National Bureau of Economic Research last year estimated that 20% fewer Americans would have held stocks had the Liberty Loan campaigns not been conducted.

The legacy has long been apparent in both the unusual scale and nature of how Americans invest. But social media and gamified trading apps are now obliterating the always-blurry lines between investing, speculation, and pure gambling. As Warren Buffett observed in 2023: "Markets now exhibit far more casino-like behavior than they did when I was young. The casino now resides in many homes and daily tempts the occupants."

And leaders like JPMorgan Chase CEO Jamie Dimon have directly likened increasingly popular prediction markets to gambling—while caveating that "people have been gambling forever."

Political polarization is now introducing a new and arguably dangerous element to the phenomenon. The cohesion fostered by the Liberty Loan program and its feelings-first marketing has been distorted into yet another force that is driving Americans apart.

Which brings us back to SpaceX. For some investors, SpaceX is an overhyped and overpriced monstrosity, run by a controversial and mercurial founder. For others, betting on SpaceX is an expression of faith. They believe in Musk and his visions of spacebound data centers, thinking machines, robots that can mine Mars, and ultimately, interplanetary travel. To them, today's stock price is a humdrum secondary concern.

This is more widespread than you might think. Even members of Congress have been found to signal their beliefs through their investment activities. "For U.S. legislators, the stock market functions not only as a venue for wealth accumulation but also as a stage for identity signaling," a paper published earlier this year noted.

But you need not be a finance professor to see that this is a dangerous trend. Markets work best when decisions are based on fundamentals, not feelings. And by reflecting

America's political polarization, identity investing can also accentuate it. Unfortunately, as the Liberty Loan story indicates, the reality may be that the American zeal for speculation and a willingness to sometimes let emotions trump rationality may always have been intertwined.

The extent may wax and wane according to the market cycles, but by now they might be impossible to separate.

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