

TOWARDS A NEW AUSTERITY?

US household consumption has been the engine of the world economy. This structure has to large extent been financed by debt and is no longer sustainable. How will the younger generation, used to high levels of consumption, react to the crisis? Will we see a renaissance for thrift, and a shift towards a culture less focused on material wealth?

In the Valley of Debt

In a televised speech after the terrorist attack on 11 September 2001, George W Bush called upon the American people to continue shopping so that the economy would not come to a halt. In wars previously, people had been primed to accept a more frugal existence. Now their civic duty consisted of continuing the spending spree.

It is tempting to take this as a sign that society has entered a new state. The French sociologist Gilles Lipovetsky says that we have left the era of mass-consumption and are living in hyper-consumption. In it, consumption has been completely deregulated: there is no institutional counter-

weight such as the Church or the family. Culture too is extremely individualistic. It is less about conspicuous consumption to assert one's status in the group, and more about exploring feelings and sensations and constantly experiencing something new.¹

One lesson we have learned from all the projects in Glasshouse Forum is that many of the phenomena we have studied – short-termism, income differentials² – have turned out to be closely related to the expansion of the financial sector, and are therefore affected by the prevailing crisis.³ Can it be that consumption patterns established in recent decades are also associated with financialisation? Will the crisis give rise to a new aus-

terity? It could be a question both of making a virtue of necessity, and a necessity of virtue – not only working off an unreasonable debt burden, but also seeing thrift and moderation as positive values. The American consumer in particular has been walking in a veritable Valley of Debt.

In many parts of the world, moralising fingers have been wagged at Americans for living beyond their means. US household consumption in 2007 was equivalent to 72 per cent of GDP – compared to China's 35 per cent in 2005.⁴ The entire world economy, however, has been dependent on US consumption and when its demand slows, export nations worldwide jam on the brakes. This applies not least to China, which recycled its surplus, giving the Americans the opportunity to borrow for further consumption.

Why have borrowing needs been so high in the USA? It is connected to a long-term tendency in the US economy. The relation between productivity and pay has been phased out. Between 1959 and 1979, pay increased relative to productivity; since then salaries have been “flatliners”, even though productivity has increased. From the end of the Second World War to the mid-1970s, it was pay increases that kept up consumption and demand in the USA. Subsequent consumption has to an increasing degree been based on borrowing. The debt volume in the USA increased from 140 per cent of GDP in 1973 to 328.6 per cent in 2005. Since 1989, it has been household indebtedness that has increased most.⁵

The Levy Economics Institute of Bard College publishes a regular strategic analysis. The first of them was published in 1999 and was already warning of the unsustainable imbalances that were

arising. In its latest strategic analysis from the end of 2008, “Prospects for the United States and the World: A Crisis That Conventional Remedies Cannot Resolve”, the institute asserts that the crisis is so deep that it cannot be mastered by conventional means.⁶ There is a need among other things for an eventual devaluation of the dollar by 25 per cent. The USA is no longer the player it once was, and neither will the American households be able to act as the powerhouse of the world economy. Dimitri B Papadimitriou, who leads the strategic analyses, says to Glasshouse Forum:

“In the US especially, to some extent Britain and to a lesser extent other countries in Europe, there has been consumption profligacy in the private sector, primarily the household sector, outspending its income because of the easy money that we have had in the past. But the latest statistics confirm that there will be a rebalancing of the balance-sheets of the household sector. And if there is going to be a savings growth, somebody else will have to pick up the pieces so we don't have a further decline in effective demand. Given how

¹ Gilles Lipovetsky, *Le bonheur paradoxal. Essai sur la société d'hyperconsommation*, 2006.

² See the projects “Short-termism in the long run” and “Globalisation and the middle class in the West”.

³ See “The Fall of Babylon”, *LookingGlass* 2/2008. <http://www.glasshouseforum.org/newsletter.html>.

⁴ See *Financial Times* 8 April 2009, “China's consumption is a disappearing act”.

⁵ See Thomas I Palley: “Financialization: What It Is and Why It Matters”, Working Paper No 525, The Levy Economics Institute, 2007.

⁶ See www.levy.org.

much the private sector was spending, what the government is to spend is nowhere near enough to compensate the private sector. So I foresee we will have a period of protracted decline in growth, until a more coordinated effort can take place, which will include some adjustment of the exchange rate.”

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Dimitri B Papadimitriou

A Tour in Debtopia

But perhaps the American consumer would in many ways live a better life through consuming less? What does it say about a society if it spends so much over its assets?

Back in 1979, in his classic *The Cultural Contradictions of Capitalism*, the sociologist Daniel Bell maintained that the credit card would have an enormous impact on society. Capitalism was undermining itself by giving contradictory imperatives. As producers we must still be governed by what Max Weber called a protestant ethic – work hard and postpone satisfaction in favour of long-term goals. As consumers, though, we are driven to want everything immediately. Bell saw a correlation between the countercultural cult of the self as the centre of all things and modern consumerism. The result would be an irresponsible and hedonistic individual.

How do things look, though, in Debtopia? Let

us make a study visit, with a travel guide in the form of “For a New Thrift. Confronting the Debt Culture. A Report to the Nation from the Commission on Thrift.”⁷

In itself, it is not a new phenomenon for people to find it hard to make ends meet and to be forced to borrow on unfavourable terms. A hundred years ago, 3 workers in 10 in New York owed money to loan sharks. Popular movements gradually arose, which were dedicated to combating this and which built up a number of institutions and regulations that promoted saving.

We seem to be in a similar situation today: in 2004, a typical family in the USA spent more than 18 per cent of its income on debt payments. In 2008, more than 58 per cent said that their income was falling behind the cost of living and they must rely on credit to make ends meet.

The pre-condition for this debt culture was a total transformation of the institutional landscape over recent decades. The institutions that earlier existed to encourage thrift and economic planning have been overshadowed by a series of new ones which drive people to spend more than they can afford and which in addition drive them to borrow on unfavourable terms. These institutions invariably avoid presenting a complete cost breakdown.

When credit cards came in the 50s, they were a marginal operation for banks. They were held by people who were careful to pay in time, and usury laws set a limit of 12–14 per cent on the maximum interest rate banks might set. Some banks found it so unprofitable that they ceased credit card operations. Since the 80s, usury limits have in

practice been abandoned. That has led to a market for providing long-term credit to financially shaky customers. Between 1989 and 2000, the rate of cardholding among the general population rose from 70 per cent to 76 per cent, while cardholding among households in the lowest income quintile rose from 29 per cent to 43 per cent. The credit card industry was the first anti-thrift sector to discover the huge but untapped profitability of the sub-prime market. It was also first to create techniques to ensure long-term dependency on expensive credit. These techniques include teaser-interest, which means that indebtedness does not immediately have tangible consequences. The method is reminiscent of developments in sub-prime mortgaging. Between 1989 and 2001, credit card debt almost tripled, from 238 billion USD to 692 billion USD. By 2007, revolving consumer credit had reached a level of 937.5 billion USD.

Among the new institutions that counteract thrift, we have payday lenders. At the beginning of the 90s, there were just a few of them in the USA. Between 2000 and 2004 the number doubled from 10,000 to 20,000. Payday lending is one of the fastest-growing and most profitable industries. Revenues have grown from 810 million USD in 1998 to 28 billion in 2006. The principle is simple. People need money when waiting for their salary or welfare benefit or whatever, and since they have no savings, they take a loan as an advance. These loans are so structured that they are difficult to repay. Instead, one is tempted to take new loans and so become ensnared in a constant need for money borrowed on unfavourable terms.

These new institutions have set up new norms and values, or strengthened those that already exist.

“Fast” is one of the most common words in advertising for these loan operations. They have removed the stigma of indebtedness and are schooling young people in this culture. Thrift has acquired a slightly negative aura.

In the middle of the boom a few years ago, when the Commission on Thrift convened a conference of leading academics on the theme of thrift, it turned out that they were either uninterested or had a condescending attitude towards thrift. “It was a waste of money,” says the prominent member David Blankenhorn to Glasshouse Forum. After the sub-prime crisis, things are different, but the reorientation that Blankenhorn is calling for is still hard to digest for most people. If thrift is a threat to the world economy, then the economy is quite simply unsustainable, says Blankenhorn. He admits that there is a connection between pay formation and the debt culture, but does not consider this the main reason:

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David Blankenhorn

“There has been a shift in our cultural values that has lessened our worry about debt. Those changes have not been driven by necessity, as much as by cultural and psychological factors. We have a lot more money than our grandparents did, and yet we spend it on a fair amount of stuff they never imagined they needed. The average American

⁷ Published by The Initiative for a New Thrift, www.newthrift.org. Facts in the following passage are taken from this report.

today is so rich, compared to his or her grandparents. It is our philosophy of life – what it means to live a fulfilled and happy life – that has changed. It is our whole attitude towards our stewardship of the material world that has changed. It can't be explained simply by the cost of healthcare or anything like that. To me these are cultural value questions: the responsibility must be within us.”

“Thrift is an ethical posture toward the material world, an ethical stance toward our resources. It draws heavily on the religious concept of stewardship – what we have is not ours, it is held in trust. The thrift ethic emphasises personal frugality, a non-ostentatious, non-conspicuous lifestyle in the interests of stewardship. The kind of mindless consumerism that we have been guilty of probably more than any people on earth is flatly at odds with the thrift ethic. This is not some alien idea that we have got from Europe or some advanced thinker. This is a very ancient point of view that has influenced many generations of Americans.”

“There is a danger that many feel that as soon as we can get the economy bailed out and stimulated, then we can go back to business as usual. Many think of thrift as an unpleasant medicine for hard times, but thrift is a positive vision for a good life.”

Save Our Souls?

There are signs that we are coming to a shift in consumption patterns. According to the *Financial Times*, a consensus is being established on the emerging consumer profile in the USA. A Citi-group report says that the American consumers are turning towards conscientious consumption

and focusing much more on thrift. These are probably lasting changes. Alix & Partners predicts that spending after the recession will be only 86 per cent of the pre-recession level. Ed Kerschner, chief investment strategist at Citi Global Wealth Management, says that there has been a break with the mentality since the Reagan years that has accepted conspicuous consumption. American anthropologists also believe that the Americans will “un-stuff” their lives and focus more on community.⁸

A crisis must probably interact with long-term changes in society to become a formative experience and lead to a new approach. One such basic tendency is the growing predominance of post-materialistic values that Ronald Inglehart has indicated.⁹ He said that increased prosperity after the Second World War meant that materialistic values, emphasis on individual security, social advancement and prestige were gradually replaced by post-materialistic values that emphasise self-development, quality of life, emancipation and civic participation. This tendency is continuing, and is not affected in any straightforward way by economic problems.

An example of this is Germany, which has had a fairly rough ride since re-unification. Martin Kroh at the Deutsches Institut für Wirtschaftsforschung has nevertheless found that the post-materialists have increased from 38 to 47 per cent in the past 20 years. Germans from the former East Germany have also adopted post-materialistic values and have caught up with their West German compatriots.¹⁰

Post-materialistic values are often interpreted as a consequence of material wellbeing during child-

hood. However, Kroh feels able to show that there is no unequivocal connection between values and the economic conditions during upbringing. It seems the parents' values have a considerably greater impact than socio-economic factors. Glasshouse Forum asked Martin Kroh whether an extended crisis will lead to a greater emphasis on security.

“The theory of post-materialistic value change would indeed predict that the current financial crisis has minor effects on the engrained values of the adult population. Like the war generation in Europe never gave up their materialistic orientation (high relevance of stability, order, etcetera) even at times of high economic growth, the cohorts raised in the wake of the student protests of the late 1960s in particular won't abandon their priority of post-materialistic views (self-expression, emancipation, etcetera). A return to materialistic values could be expected if the financial crisis radically impairs the prospects of the young generation. This may create a lasting need for economic security in these young adults that subtly changes public opinion in the direction of materialism in the coming years. However, do we really expect a long-lasting crisis that overburdens our welfare systems and creates miserable living conditions for a large part of the population?”

“This does not mean that the crisis has no effect on savings, for instance. But here one needs to conceptually distinguish between values and actual (economic) decision-making. The latter may not only be a function of values but also of contextual incentives, such as the crisis.”

“In his early publications, Inglehart speaks of bourgeois values instead of materialistic ones.

This stresses that materialism does not equate with consumption. Members of a bourgeois society, ideally, pursue affluence intrinsically, because it represents besides the capacity for consumption, and a certain status, security, and prestige. In a post-bourgeois society, ideally, affluence loses its additional intrinsic value and becomes solely a vehicle for consumption. In that respect, materialists would all else remaining the same suffer more from losing their affluence. However, severe restrictions on consumption would hurt both materialists and post-materialists. Even organic fair-trade products are expensive.”

“The younger generation has not yet been tested in a crisis.”
Martin Kroh

“The younger generation has not yet been tested in a crisis. Indeed, it may be true that someone who is familiar with an economic crisis is not only more likely to value economic security during affluent times, but in the event of social decline is better prepared to accept it.”

In many cases, new life patterns are borne by new generations, and they can lead to stark reorientation with regard to the values of the preceding generation. Something along those lines has been

⁸ *Financial Times* 8 April 2009, “‘New’ US shopper to emerge from crisis”.

⁹ Ronald Inglehart, *The Silent Revolution: Changing Values and Political Styles among Western Publics*, 1977.

¹⁰ Martin Kroh, “Wertewandel: Immer mehr Ost- und Westdeutsche ticken postmaterialistisch”, DIW Wochenbericht, Nr 34/2008.

announced for the generation born between 1982 and 2004, who in the USA are called the Millennials. In a book written together with William Strauss, *Millennials Rising. The Next Great Generation* (2000), Neil Howe described them as a great political generation in the future USA, on a par with those who conquered the Depression and fought in the Second World War.

The Millennials have broken with several long-term trends, for example in criminality, drug abuse and study results and there are indications that they are bearers of a new sense of life. It is a cosseted generation: they are close to their parents, healthier and less prone to injury than any previous generation. They are also notable for their optimism. In 2005, 65 per cent of those aged 18–25 thought that they would be economically more successful than their parents.

They also apply a different problem analysis than the preceding generation. They have formative experience of individuals or groups running amok, and therefore have a more positive view towards the state. “Millennials have been moving to the ordered center rather than pushing the anarchic edge”, Howe states in a fresh update, “Yes We Can. The Emergence of Millennials as a Political Generation”, written together with Reena Nadler.¹¹ The Millennials have already made their political mark through their solid support for Obama.

In some ways we seem to be facing a perfect matching between generation and crisis. That which the times demand is what the Millennials strive for anyway. They stand to the left in economic issues and want regulated capitalism. On cultural matters they have been described as

neo-traditionalists for their respect for family and traditions. They also have firm trust in authorities and want them to intervene in citizens’ lives through a paternalism of the kind that Richard Thaler and Cass Sunstein propose in their book *Nudge* (2008). They also want to reduce income differentials and strengthen the middle class, and think that the demands of the common good must often take priority over individual freedom. The Millennials are the most racially diversified generation in US history, but are sceptical to identity policies and factors that appear to set one group against another. They prefer that minorities are integrated in the majority culture and have opportunities to succeed there.

There is a but, and it concerns their capacity to resolve the crisis and form the future. It is a protected generation that lacks experience of setbacks. Will its optimistic view and drive be lasting? Glasshouse Forum asked Reena Nadler.

“It is of course impossible to predict exactly how this generation will handle an unknown series of possible events. What we can do to get a broad perspective on how Millennials are likely to handle a prolonged crisis is to look at the development of prior generations in history that had similar characteristics – what Howe and Strauss identified as a similar generational archetype.”

“The prior generation that best resembles the Millennials is the GI generation, born 1901 to 1924, the rising young adult generation during the Great Depression and World War II. Similarly to the Millennials, the GIs grew up during a long period of prosperity (the roaring 20s) and were coddled and watched-over as a special generation by parents, teachers, and policy makers. The GIs

were also known for their upbeat, can-do attitude and team spirit – and when, as young adults, they encountered the Great Depression and World War II, these traits became even more pronounced.”

“We now think of them not as coddled children, but as the heroic, team-spirited CCC dam builders and World War II veterans who rose to the challenge when their country needed them.”

“It is likely that Millennials will rise to the challenge in a similar way if America faces a prolonged crisis in the years ahead. Certainly this generation’s self-confidence makes it harder for them to bounce back from personal disappointments. But their civic confidence and team orientation makes it easier for them to pull together as a community in the face of society-wide disappointments. They are more likely than older generations to be devastated by a poor personal performance review in the office – but less likely than older generations to object if everyone office-wide votes to accept a benefit cut to keep the company afloat.”

Are not the older and younger members of this generation growing up in separate worlds? The older ones, born in and after 1982, have enjoyed a period of unique prosperity for almost the whole of their upbringing, while the younger ones will have the crisis among their childhood memories. An American anthropologist recounts that his little daughter asks with concern whether they have a debit card and not a credit card which daddy uses to pay in the shop. She has already learned that a credit card can spell disaster.”

“Yes, there can indeed be differences in the experiences of the first and second half of a genera-

tion. What we usually see is that the second wave of a generation tends to continue the trends begun by the first wave but even more so. For example, the first wave of the Boom generation started many new trends that were a clear break from the Silent Generation that came before them – towards more risk taking, drug abuse, falling educational achievement, widening income range, etcetera. The second half of the Boom generation experienced all these trends to an even greater degree. We are already seeing similar developments among the Millennials, where late-wave Millennials are intensifying the generational trends towards risk-aversion, falling substance-abuse rates, rising protection, etcetera. If younger Millennials enter young adulthood in a more intense atmosphere of crisis than their older counterparts, we can expect these kinds of differences to continue.”

“Millennials are likely to adjust more easily to the idea of less prosperity by buckling down with their peers and experiencing the change as a group.”

Reena Nadler

“Millennials are likely to adjust more easily to the idea of less prosperity by buckling down with their peers and experiencing the change as a group.”

“After all, prosperity is a relative, socially-defined phenomenon, and Millennials are a far more interconnected, social generation than Boomers or Gen Xers. If none of her peers has a Play-

¹¹ Published by The New America Foundation, 2009.

station, a Millennial won't want one either – especially since having one might make her stick out from the crowd and make her friends feel bad.”

Private Interest and Public Purpose

Even though new generations are often bearers of a new approach, a changed mentality is not of course solely dependent on generation handover. The cultural and political climate has a tendency to swing between certain primary positions. After a certain position has been dominant for a time, it seems to have exhausted its potential and a movement begins towards its opposite.

The American historian Arthur M Schlesinger Jr. stated in the essay “The Cycles of American Politics” that there is in American history a cyclic movement between private interest and public purpose.¹² The latter is characterised by public action, passion, idealism and reform. However public purpose takes time and energy and gradually exhaustion and disappointment take over. Matters are left to the market's invisible hand, and people focus on their private affairs. Wealth takes over from Commonwealth and it gradually leads to corruption at different levels of society.

Privatisation is not limited to politics – it occurs in literature, which turns its back on society and focuses on the traumas of the family and the individual. Even disciplines like economics and political science take part in the same retreat and abandon wider historical visions and public responsibility, and become behavioural, quantitative, mathematical, antiseptic, and “value free”.

In many ways, it is pertinent to characterise the

latest decade as a time dominated by private interest, in everything from preoccupation with the private sphere and the small circle, and faith in the market's invisible hand, to elites mutually enriching each other. An indication of a current shift is that the approaching times will demand public purpose. It is about enduring through joint efforts and working one's way out of the crisis, as well as forming a functional order. The hyper-individualistic hyper-consumer that Lipovetsky describes will appear rather alien in a spirit of the age defined by a public purpose.

Through emphasis on the collective, such a period will feature other consumption patterns, above all with regard to conspicuous consumption. Benchmarks and motivation change when a public purpose becomes central. Status is achieved through significant contributions to the public purpose. (Is perhaps self-exploratory hyper-consumption largely an attempt to deal with a lack of public purpose?) Millennials seem to be the tailor-made bearers of such an ethos, with their will to put the collective before the individual.

Glasshouse Forum asked Reena Nadler whether Millennials might represent a shift from preoccupation with material matters to interest in culture. She feels that such expectations are typical for an older generation.

“The idea of focusing on ‘culture and meaning’ in times of low prosperity is in fact very Boomer, and I'm sure we'll hear a lot of Boomer pundits talking about that in the years ahead.”

¹² In Arthur M Schlesinger: *The Cycles of American History*, 1986.