

100

# Frugal consumers: A new paradigm

The American consumer is the engine of the country's and the world's economies, it's as simple as that. When we spend, everybody makes money and, in a capitalist society, that's what makes the wheels go around.

But when people lose their jobs, fear losing their jobs, or see other people losing their jobs, they tend to stop spending, or at least cut way back. That's what's been happening of late because of the shock of the near-collapse of the U.S. economy in 2008. Consumers have cut back dramatically on their spending for just about everything, in a big way, and that makes a speedy recovery difficult.

The difficult questions to answer are: When will American consumer spending rebound? And have we been so burned by this recession that we will never go back to spending the way we did before?

## A survey: Where are we now?

Views differ among economic experts on what's happening right at the moment, with some starting to express

optimism and others, not so much.

Nobel Prize-winning economist, Paul Krugman, says that the U.S. consumer who's "been such an important driver of the global economy, is exhausted," adding that any recovery will most likely be "slow and painful."

According to Bob Willis in an article for *Bloomberg News*, "Americans took on less debt to repair tattered balance sheets, pushing the savings rate up to six percent of disposable income in May, the highest level since 1998." Just about everyone agrees that saving for a rainy day is a good idea, but the immediate effect of saving is to take money out of circulation because it's not being spent.

However, Dean Maki, chief U.S. economist at Barclays Capital Inc. in New York says, "Housing has turned in a durable way in our view" and "consumer spending is actually coming in stronger than we expected." Speaking of housing, he says, "Affordability has improved so dramatically" and "housing prices have fallen faster than incomes."

Zach Pandl, economist with Nomura Securities International Inc., agrees with Maki. "The recent increase in stock prices and stabilization in home prices should help dampen the negative effects on spending," he says.

Brian Moynihan, chief of consumer banking at Bank of America Corp. says that consumers "are hanging on by their fingertips. People aren't earning as much as they want and they aren't getting as many hours as they want."

## In the minds of the consumers

So what are consumers saying one year after the collapse of Lehman Brothers and the beginning of this economic debacle? In a 2009 Bloomberg News poll of U.S. consumers conducted September 10 – 14:

- Regarding household spending: Eight percent said they will increase it, 58 percent said they will keep it at about the same level, 33 percent said they will reduce it and three out of

see CONSUMER on page 22

# A good job: Part of the American Dream

The phrase, "The American Dream," is so integrated into our national psyche that it might as well be part of the national anthem or pledge of allegiance. Indeed, the core document of the United States of America, the Declaration of Independence says, "We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness." So that's it, the American Dream in a nutshell.

While Joe and Elizabeth Average might not exactly consider getting out of bed to go work the night shift at the ball bearing factory "the pursuit of Happiness," it's a lead pipe cinch that, unless we're independently wealthy, and relatively few of us are, most of us are happier when we have a paycheck.

## More than money

But there's more to it than just money. In his book, *Working*, the late Louis "Studs" Terkel pointed out that while many jobs are unfulfilling in and of themselves, people somehow find ways to make them important. Almost everyone he talked to said they did their jobs for money, sure, but it mattered just as much to most of the people he interviewed, from corporate presidents to street sweepers and dog groomers, that they did a good job and were contributing to the overall good.

Terkel said, "When you become part of something, in some way you count...and you suddenly realize you count. To count is very important."

## Blame it on Adam and Eve

Judeo-Christian beliefs about work go back to the Book of Genesis – you know, the story about Adam and Eve getting the boot from the Garden of Eden. "By the sweat of your brow you will

see JOB on page 22

# HOLDING ON TO THE AMERICAN DREAM

Articles by  
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## Recession puts strains on Social Security program

- "A lot of people who in better times would have continued working are opting to retire. If they were younger, we would call them unemployed." – Alan J. Auerbach, professors of economics and law, University of California, Berkeley.
- For the first time since the 1980s, Social Security will pay out more in benefits than it collects in taxes the next two years.
- The Social Security deficit – \$10 billion in 2010 and \$9 billion in 2011 – won't affect payments to retirees because Social Security has accumulated surpluses from previous years totaling \$2.5 trillion. But they will add to the overall federal deficit.
- Nearly 2.2 million people applied for Social Security retirement benefits from the start of the budget year in October through July, compared with just under 1.8 million in the same period last year.
- About 43 million retirees and their dependents receive Social Security benefits. An additional 9.5 million receive disability benefits. The average monthly benefit for retirees is \$1,100 while the average disability benefit is about \$920.
- Applications for retirement benefits are 23 percent higher than last year. Disability claims have risen by about 20 percent.

Source: "Early retirements strain Social Security system" by Stephen Olemacher, Associated Press

## Government programs and the American Dream of retirement

There was a time in America when retirement wasn't even in the minds of workers because only the wealthy were ever going to arrive at that rare destination. In an agrarian society, such as America was in the early days, you went to work when you were old enough, often at age five or six, and prospered or suffered along with your extended family according to the whims of weather, accident and pestilence.

That was it. You worked until you died, or were so used up that you couldn't work anymore, then, if you had one, your family took care of you.

Tough, but that's the way it was. Life was harder then, shorter then. Medicine was primitive and health insurance or any other formal safety net was non-existent. Shockingly, life expectancy in the seventeenth century, when our English-speaking forebears first came to North America, was about 25 years.

## We're living longer – much longer

Jim Oeppen and James W. Vaupel in their article "Broken Limits to Life Expectancy" ask, "Is life expectancy approaching its limit? Many – including individuals planning their retirement and officials responsible for health and social policy – believe it is. The evidence suggests otherwise."

They continue, "Consider first an astonishing fact. Female life expectancy in the record-holding country has risen for 160 years at a steady pace of almost three months per year. In 1840, the record was held by Swedish women, who lived on average a little more than 45 years. Among nations today, the longest expectation of life – almost 85 years – is enjoyed by Japanese women."

In America the CIA (yes *that* CIA) estimates the average American life span in 2009 – meaning the life spans of both men and women averaged out – at 78.11 years. That's fiftieth in the world in terms of longevity. The point is, we're living much longer and having to manage our way through physical needs that extend in many cases far beyond our income-producing days.

## Early social security: Civil War pensions

There were many experiments with "social insurance" around the world prior to ours in the United States, but for us, the closest thing to it before 1935 and the advent of the Social Security program was pensions for Civil War vets and their families.

According to the Social Security Administration, "Following the Civil War, there were hundreds of thousands of widows and orphans and hundreds of thousands of disabled veterans. In fact, immediately following the Civil War a much higher proportion of the population was disabled or survivors of deceased breadwinners than at any time in America's history. This led to the development of a generous pension program, with interesting similarities to later developments in Social Security."

## The exodus from farms to factories

These days we tend to think of the family as the "nuclear family," consisting of mom, dad and the kids, but before 1920, the concept of family was much larger and included aunts, uncles, cousins and grandparents, the "extended family." Moreover, many members of extended families lived in close proximity to each other, creating an immediate safety net in times of trouble.

1920 marked the first year in America when more people lived in cities than in rural areas and also signaled the move toward smaller family units and, thus, a less available safety net should some illness, accident or job loss arise. Compounding this was the associated effect that when the young and able bodied moved into the cities for jobs, grandma and grandpa were often left behind.

At the same time, medicine and health care were making rapid advances and people were starting to live longer. The Social Security Administration says, "In three short decades, 1900-1930, average life spans increased by 10 years. This was the most rapid increase in life spans in recorded human history. The result was a rapid growth in the number of aged persons, to 7.8 million by 1935."

This older, larger, urbanized population of people put a heavy strain on the old family support system and it became obvious that something else needed to be put into place. President Roosevelt made social insurance the bedrock of his plans to deal with the problem.

## Enter Social Security

In his "Message of the President to Congress" on June 8, 1934, President Roosevelt said, "Security was attained in the earlier days through the interdependence of members of families upon each other and of the families within a small community upon each other. The complexities of great

see RETIREMENT on page 22

100

ONE HUNDRED DOLLARS