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## DELAYED GRATIFICATION

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“Buy now, pay later” has long been the unofficial mantra of American retailing. But this holiday season plenty of American shoppers have gone the other way—paying first and buying later. ’Tis the season of layaway. Not long ago, layaway looked like a relic, thanks to the widespread availability of credit cards. The dismal economy has changed all that. As early as the fall of 2008, with the recession in full swing, Kmart started a campaign pushing layaway, and, as shoppers embraced the idea, retailers across the country have made it a big part of their holiday sales drive. Walmart had killed its layaway program for everything but jewelry in 2006. But this year it acceded to reality and brought layaway back.

The return of layaway makes historical sense, since it first became widespread during the Great Depression, when the country, just as it is now, was dealing with the hangover from a colossal credit binge. During the nineteen-twenties, the vast majority of consumer durables, like refrigerators, washing machines, and furniture, had been purchased on installment. But credit dried



up during the Depression. Similarly, one reason for layaway's resurgent popularity is that credit, for many Americans, is much harder to come by these days. Credit-card companies have tightened their standards, dropped customers, and shrunk credit lines. But consumers aren't using layaway just because they don't have other options. They're using it as a way to manage their money better. It's a question not necessarily of spending less but of learning how to spend smarter.

The key to understanding the appeal of layaway is that most layaway programs require shoppers to make regular payments. Typically, you pick out the product you want, make a down payment, pay a service fee (typically five dollars), and then make regularly scheduled payments over a period of time until you've paid off the full price. There are no interest payments, and if you don't make all the payments you get your money back, minus a cancellation fee. It's the exact opposite of installment credit, where you get the product, and then pay for it.

From a strictly financial perspective, layaway looks foolish. As critics point out, if you were to put the purchase on a credit card instead and pay off the amount in full by the time that the layaway period would have elapsed, you could well pay less in interest than the five-dollar service fee that most stores charge. Alternatively, if you don't have a credit card, you could put the money you're going to spend on the product into a savings account or under your mattress. That would save you the service fee and eliminate the risk that you'll have to pay a cancellation fee if you end up not making all the layaway payments. What this analysis leaves out, however, is the way people actually behave. Even people who can pay off their credit cards often don't, since the whole structure of the credit-card industry is designed to make you irresponsible—as long as you make a small monthly payment, the bank will carry you. In fact, that's what the bank wants: the profits in the credit-card business come from “revolvers,” people who pay a small amount each month and rack up big interest charges—far more than the five bucks they'd have spent on a layaway service fee. Layaway, by contrast, fosters virtue: it forces you to save, because if you don't make the payment you don't get the product. It's what psychologists call a “commitment device,” a way to get yourself to do something that you want to do but know you'll have a hard time doing if left purely to your own devices.

Layaway is also appealing because it helps people target their savings. In economics textbooks, money is money, which makes it seem as if you could get the same results by making regular deposits into a savings account or even into a jar labelled “Christmas Money.” But in the real world most of us rely to some extent on what the economist Richard Thaler calls “mental accounting”—we split our money into different mental accounts, and treat it differently depending on what account it's in. Money that's in the bank is more likely to be spent on other things, while layaway insures that it'll be spent on one thing. As Sendhil Mullainathan and Eldar Shafir show in a fascinating essay on the savings habits of low-income consumers, layaway is a popular way of making big purchases (like washing machines), because, if you don't have a lot of money, the

presence of a sizable sum in the house or even in the bank means that you'll be constantly tempted to dip into it. The economists Barton Lipman and Wolfgang Pesendorfer argue convincingly that people have a profound distaste for temptation, and are willing to go to great lengths to avoid it. That's precisely what layaway does.

It's common to think of American consumers as reckless dupes, myopically focussed on the present and easily led astray by their desires, with the buying binge of the years leading up to the crash proffered as Exhibit A. But consumer choices don't occur in a vacuum; they're always shaped by social and economic norms. Americans have been big spenders for decades now, but as Sheldon Garon observes in his new history of consumption, "Beyond Our Means," that's in large part because our economic system is set up to encourage overspending. And what the revival of layaway makes clear is that, while many shoppers are prone to spend what they don't have on what they shouldn't buy, they can also be sophisticated about their weakness, and savvy about finding ways to control it. They know that sometimes you have to have your hands tied in order to grab what you want. ♦

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