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# Getting and Spending

*Alas, it's the American way* BY IRWIN M. STELZER

Professor Wilcox has managed to cram not one, but two, important and readable books into 176 pages.

Not that such was his intention. But his discussion of why Americans have decided, in massive numbers, that current consumption is far more gratifying than thrift is only loosely and occasionally connected to the policy prescriptions that follow. Either would make worthwhile reading; both, between one set of covers, give the lie to the Washington view—developed during the Clinton administration and revived during the recent primaries—that “two for the price of one” inevitably produces a disaster.

I should begin by pointing out that Wilcox almost lost my goodwill on the second page, where he writes: “Some

Americans go crazy with their credit cards—purchasing, for example, a watch accurate to the nanosecond that displays the time in eight different time zones—rather than saving that money for retirement.” As one who recently

#### Whatever Happened to Thrift?

*Why Americans Don't Save and What to Do About It*

by Ronald T. Wilcox  
Yale, 176 pp., \$30

purchased a relatively inexpensive timepiece that can tell time in 20 time zones, if I could figure out how to set it, I did not appreciate having an academic (Darden School of Business Administration at the University of Virginia) passing judgment on my choice between current and future consumption.

Wilcox never fully answers what he calls the economists' contention that saving is a matter of individual choice, “and questions about ‘too much’ or ‘too little’ have a moral punch that is not rel-

evant to the decision making of rational people.” Nor is he willing to say “with ... conviction whether Americans' current wealth accumulations, both realized and unrealized, are sufficient for their long-term financial well-being.”

Which is a good thing, because none of the data now available to us tell how Americans will save from current income now that they cannot count on rising house prices to make them richer—even though they spend their entire paychecks, and then some. But he does make a reasoned and never-overstated case that there are grounds to worry about the precipitous decline in our reported savings rate, which is now below that of every other developed country.

First, many Americans worry that their savings rate is too low, even as they spend and spend. So there might be an element of irrationality in their refusal to worry about the future. Such seemingly irrational behavior is the subject of an increasing literature that

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attempts to integrate economic theory with the work of students of consumer and worker behavior.

Second, there are macroeconomic consequences of a low national savings rate. We have to borrow from abroad to fund our consumption, and that puts us at the mercy of not-too-friendly governments that might, one day, decide they have more pictures of presidents in their vaults than they care to have, and sell them off in a rush.

That would accelerate the current decline of the dollar, trigger inflation, and force the Federal Reserve to raise interest rates to shore up the value of our currency and nip inflation in its incipency—perhaps at a time when the economy is slowing down. And in order to peddle the IOUs we are creating, our government would have to offer higher and higher interest rates to countries flush with investable and lendable capital because of the high savings rates of their citizens.

In the measured fashion that characterizes this book, Wilcox concludes, “While those who predict a near-term crisis are probably overstating the case, the horizon holds both risks of large economy-wide problems and near certainties of hardship for many U.S. households.” The latter is a reference to Wilcox’s concern that the poor do not have sufficient stores of income-yielding assets—no surprise, although something he (surprisingly) finds “one of the more striking results” of his studies.

So why do we save so little? Here Wilcox draws on a variety of disciplines. But he begins by dismissing those who argue that we are the pliant victims of “lecherous corporations”—to blame them is a “convenient lie”—and their ad agencies, or of banks that drop unrequested credit cards in our mail boxes: “Blaming the American savings problem on credit cards is like blaming America’s obesity problem on McDonald’s.”

No, the fault, dear reader, is not in the manipulative skills of others, nor in the tempting aroma of fries emanating from fast-food shops, but in ourselves.

It is difficult to do justice to Wilcox’s analysis in summary, but I will try. We all have “reference groups”—family, friends, coworkers—that influence our

spending patterns. An academic can get a clue as to the car he should be driving by looking at the university parking lot: business school professors drive new cars, English professors older issues of the same brands. Volvos good, giant SUVs bad. Smith & Wesson bumper stickers are not a good idea in Charlottesville; better a “W” with a slash through it.

“Of course,” writes Wilcox, “no one actually tells you these things; you just know them.”

Unfortunately, the clues you get from your reference group are “one-sided.” You notice the Porsche more than the Toyota, the old heart-of-pine floors in a colleague’s house: “And, over time, my beliefs about what constitutes an appropriate level of consumption for my reference group shift towards extraordinary items that generally are more extravagant and costly than what I currently own.” Apparently, no one in Professor Wilcox’s reference group favors multi-time-zone watches.

This is more than the traditional keeping-up-with-the-Joneses; it is keeping up with the most expensive items owned by each of the Joneses you get to know: It is “the progenitor of financially reckless behavior.” Add to this our natural optimism about the future, and the moral hazard created by our belief that the government will bail us out if we get in trouble, and you have what Wilcox sees as a prescription for a belief that, in the unlikely event that a rainy day does occur, someone will appear with an umbrella.

Of course, our optimism has not been misplaced in the past. It is only in recent years that our cheery view of our economic future has been dimmed by a stall in the increase in real incomes for many families. So it did make sense for a young couple to buy a house that is beyond their current means; incomes will rise and turn that seeming extravagance into a prudent investment. Especially since house prices seemed to be on a one-way escalator, and real (inflation-adjusted) interest rates have been relatively low, “a powerful disincentive to save.”

Nor have Americans been foolish to believe that the government will unfurl

an umbrella to shield them when a rainy day comes around, witness the shareholders of Bear Stearns who were paid \$10 per share for a bankrupt company, thanks to the government’s intervention. Or the homeowners, deserving and undeserving, who are likely to be saved from losing homes many should not have bought by the unlikely combination of Barney Frank and Henry Paulsen. Or consumers who benefit from relaxed bankruptcy laws.

Moral hazard is not a theoretical concept invented by economists; it is an important, real-life factor in persuading some businesses and consumers that they need not worry if risky behavior gets them into trouble. Uncle Sam will ride to the rescue.

When Wilcox turns to policies that might encourage us to save more, he starts with the assumption that “it would be intellectually dishonest to ignore the hard reality that when we advocate policies that disallow failure, the outcomes of good choices and bad choices become similar. This diminishes the incentives for people to delay immediate gratification and make good choices—one of which is certainly saving money.” Some readers might recall that, many years ago, Irving Kristol emphasized that postponement of gratification is necessary if capitalist economies are to accumulate the savings pools needed to fund the investment that is the key to increasing productivity and well-being.

In the second part of his book, Wilcox turns to policies that might increase Americans’ propensity to save. He eliminates “coercive measures . . . that is not the reality of American politics.” But there is much, he contends, that both government and employers can do. This list of public policy measures includes the long-needed reform of our system to tax consumption, rather than savings. Such a reform, he argues, would tax the benefits of wealth (the ability of the rich to buy what they want), and can be made progressive, or at least less regressive, by exempting some minimum level of consumption, or certain products.

Here, Wilcox underestimates the devilishness of working out the details. In Great Britain, children’s clothing is exempt, but there is now some discus-

sion of whether certain brassiere sizes can any longer be classified as being only for adults, and therefore subject to tax. Or whether the exemption of food from tax should allow consumers to eat cake, tax-free. Better a flat dollar exemption than an ever-changing list of exempt products.

Wilcox's to-do list for government goes on to include a low-cost retirement system for employees of small businesses, a reinvigorated marketing of government savings bonds, fuller disclosure of mutual fund charges, and targeted financial education, among other measures. All unexceptional.

But his suggestion that Americans in the lowest 25 percent of adjusted gross income should be allowed to divert 3 percent of their Social Security contributions to a government-managed, pure domestic index stock mutual fund is less obviously a good idea. "Holding stocks makes sense for almost everyone, rich and poor," he says. Perhaps, in the long run, but even then not certainly. But what of those who retire during, or immediately after, a protracted market downturn? And what if participants lose money? Wilcox concedes that moral hazard might rear its unlovely head: "There is the potential for political pressure to bail them out."

You can count on it.

Employers could help by choosing pension plans with low fees, automatically enrolling employees in 401(k) plans unless they opt out, and limiting their own consumption because, like it or not, employers are in their employees' "reference group." And workers "infer that you [employers] view others with similar consumption patterns more favorably."

I wonder. A worker might, instead, guess that if he pulls up alongside the boss in the company parking lot in the same car, wears the same custom-tailored suits, and joins the same country club, his employer will begin to check the petty cash drawer, or audit expense accounts, or snoop around to see if there is some extracurricular dealing on the shop floor.

But this is a quibble. There is much in *Whatever Happened to Thrift?* worth thinking about—interesting stuff, and sufficiently well written to be accessible to any reader. ♦