



The End of Credit Card Consumerism

A new frugality could remake the U.S. economy—and American life

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When it comes to longevity, few royals can top America's King Consumer. For more than four decades, our shopaholic nation has shown an insatiable desire to spend until our credit cards melt. And throughout this era, consumer spending has, well, *consumed* a greater and greater share of our total economy. Only twice since 1965, despite half a dozen recessions, have Americans spent less in a year than the previous one. Indeed, it often seems that we have defined ourselves by our ability to buy supersized everything, from McMansions to tricked-out SUVs to 60-inch flat-screen televisions—all enabled by decades of cheap credit.

On the surface, it may seem that there's nothing wrong with all that conspicuous consumption, especially for the biggest, most productive economy on the planet. After all, our undying love of stuff has helped fuel a global economic boom. Yet today, America finds itself at a once-or-twice-a-century economic tipping point. A sharp slowdown, record-high gas prices, high consumer debt levels, a plunging real estate market, and the growing green movement all seem to be conspiring to dethrone King Consumer and transform the economy and the American way of life for years to come. "The process of bringing our wants and our needs into realignment," says Merrill Lynch economist David Rosenberg, "is going to involve years of savings and frugality." Or, to put more it more simply, "there is an anti-bling thing going on," says Marian Salzman, chief marketing officer of Porter Novelli.

Party's over. Many consumers, of course, don't have much choice but to scale back. Total credit card debt has increased by over 50 percent since 2000. The average American with a credit file is responsible for \$16,635 in debt, excluding mortgages, according to Experian, and the personal savings rate has hovered close to zero for the past several years. High gas and food prices are causing real incomes to fall. Even worse, rising inflation will probably cause the Federal Reserve to start jacking up interest rates once the credit crisis on Wall Street has passed, tightening credit even further. "We're shedding jobs, it's much harder to borrow, and what used to be capital gains are now capital losses," says Scott Hoyt, senior director of consumer economics at Moody's Economy.com. "There's no source of funding for spending." Because many of us won't

be able to as easily use our homes as ATMs, Hoyt expects to see an upward trend in saving and slower growth in consumer spending, compared with the binge of the past decade.

It was our appetite for housing, after all, that served as the catalyst for the multidecade consumer boom. Consider this: Consumer spending has risen to just over 70 percent of the U.S. economy from a bit more than 60 percent in 1965. The pace really picked up in the 1970s, when the first baby boomers started buying and furnishing their own homes. But now, Rosenberg says, the median boomer is in his early 50s and looking to unload his fleet of leased SUVs.

To some degree, then, demographics are destiny. Longer term, an aging population will need to spend less and save more for retirement. As that process plays out, consumer spending may become less important in the big economic picture. Moody's Economy.com forecasts that the combination of demographic and financial factors will cause just such a seismic economic shift. Reversing a four-decade ascent, consumer spending could actually start falling as a percentage of U.S. gross domestic product, slipping to 68 percent over the next seven years.

Shopped out. And this new frugality might actually be OK with many of us. Consumers were "so glutted on everything that they had acquired and all the time that was robbed from them...that they almost saw this [downturn] as a great opportunity to stop," says Faith Popcorn, chief executive of her eponymous consultancy. In a recent survey, she found that 90 percent of respondents said they were considering options for "the simpler life," and 84 percent said they were inclined to buy "less stuff."

Another survey found that people rank being in control of their finances and living a green lifestyle higher as signs of success than having money or a luxury car, and view having a paid-off mortgage as more of a status symbol than having a beautiful home. "We have to convince ourselves that the lifestyle we can afford right now is a desirable one," says Holly Heline Jarrell, a global director at the communications firm Manning Selvage & Lee, which sponsored the survey.

Examples of the mind-set shift abound. Large-vehicle sales declined 5.5 percent during the first six months of 2008, while compact-car sales rose 33 percent, according to J. D. Power & Associates. Piaggio, the company that makes Vespas, reports that scooter sales in June were up 146 percent over a year earlier. Even daily lattes have been cut; in July, Starbucks announced that it was closing 600 stores in response to reduced consumer traffic. The NPD Group has found that the number of meals made at home has been steadily rising since 2001. "We're coming back to the home," says Harry Balzer, vice president of the firm.

For some people, the downscaling has more to do with a changing definition of cool than with budgeting. The summer blockbuster *WALL-E* depicts a future world where spending and waste have spiraled so out of control that the Earth becomes a giant landfill. Magazines play up how celebrity moms like Victoria Beckham, aka Posh Spice, and

Heidi Klum shop at Target for their kids. A simplification industry has spawned an annual Buy Nothing Day, books and blogs about not purchasing anything for a year, and *Real Simple* magazine. One recent post on the [Consumerist](#), an irreverent website dedicated to standing up to corporations, contemplated the Geo Metro's transformation from "weak to chic." Consumerist's senior editor, Meg Marco, who used to drive the unstylish but fuel-efficient vehicle herself, says, "When gas is over \$4 per gallon, I don't think anyone is any less 'cool' simply because they're seen driving a compact car."

Young consumers in their 20s may be most affected by the shift to simplicity. In focus group research for her upcoming book on generation Y, consumer psychologist Kit Yarrow has found growing interest in secondhand stores. Young shoppers tell her that it's a "way to get new stuff without creating stuff," she says. And because consumers often learn their lifetime shopping habits during their developmental years, Mandy Putnam, vice president at TNS RetailForward, says that members of generation Y may be permanently shaped by today's lessons in austerity, much as their great-grandparents were by the Great Depression.

There's also an environmental component, says personal finance guru David Bach. "I just sat at the kitchen table with my 5-year-old son talking about 'reduce, reuse, recycle'—I couldn't have told you that at 5," Bach says. He recently wrote [Go Green, Live Rich](#), which focuses on how helping the Earth can coincide with smart financial choices, such as avoiding bottled water and starting a vegetable garden.

Russell Simon, a 26-year-old communications manager for Carbonfund.org, a non-profit, embodies that way of thinking. He furnished his Washington, D.C., apartment with used furniture found on Craigslist, uses a canvas bag to bring home groceries, and gave up his '99 Subaru Impreza Wagon. He fills his time with activities, like swing dance lessons, that don't involve buying things. While he's glad his anticonsumption ways have a positive effect on the environment, Simon's motivations are more self-serving. "It's about uncluttering my mind, uncluttering my space, and allowing me to focus on things that matter," he says.

Cindee Mazzanti, a self-employed 57-year-old living in upstate New York, started downsizing in 2001, when the end of the dot-com bubble made her realize the importance of living within one's means. She sold her home and used the equity to pay off her debts and purchase a smaller home without a mortgage. She also traded in her Ford Freestyle SUV for a more thrifty Ford Focus to lower her own fuel costs and help reduce America's demand for foreign oil. Her monthly living expenses shrank from \$5,600 to \$1,200. Without debt, she says, she feels free.

Refills. Retailers are doing what they can to woo these new, economy-minded consumers. In April, Starbucks began offering new rewards on its stored-value cards, including free refills on hot and iced brewed coffee and complimentary syrup and soy milk. "This was an opportunity...to show Starbucks can be a part of people's lives even when budgets are tight," Brad Stevens, vice president of Starbucks's customer relationship management, says.

But what happens when budgets aren't so tight? Plenty of hardheaded economists say we'll go right back to our prodigal ways. Alan Blinder, economics professor at Princeton University and former Federal Reserve vice chairman, thinks that optimism and the drive to spend are hard-wired parts of America's cultural DNA. Blinder expects that even baby boomers will continue the spending spree that has defined most of their lives, buying medical care and golf vacations instead of new cars and larger homes.

Economist David Malpass argues that Americans aren't nearly as bad off as the low personal savings rate suggests because that calculation ignores the buildup of net worth. (If you bought a share of XYZ Corp. in January at \$100, for instance, and its value doubled by December, the savings rate measure would still value that investment at \$100.) Malpass points out that the average household has \$573,379 in assets, including the value of retirement plans and the cash value of life insurance, and only \$117,951 in liabilities.

Even if Americans do curtail their spendthrift habits, the result would probably be a healthier and more balanced American economy. Next year, the federal budget deficit is projected to reach almost \$500 billion for the first time. America couldn't afford such a fiscal shortfall if foreign investors, such as the Chinese, didn't buy our debt—U.S. treasury bonds. If as a nation we bought a bit less and saved a bit more, economists say, the result would be stronger long-term economic growth. And depending on the kindness of strangers to perpetually finance your lavish spending sure seems risky. If the foreign appetite for U.S. dollar assets abated, says T. Rowe Price chief economist Alan Levenson, the dollar would probably weaken further, reducing Americans' standard of living.

Besides, there is more to the economy than just the consumer. The economic boom of the 1990s was led by business investment, especially in technology, aiding a boost in productivity that continues today. While businesses are holding back on investment because of recession fears, they are likely to beef it up after that threat passes, says Robert Brusca, chief economist at Fact and Opinion Economics.

And Uncle Sam may have a role to play as well by investing taxpayers' dollars to upgrade our national infrastructure and advance alternative energy technologies. "We're at a critical moment," says Benjamin Barber, author of [*Consumed*](#). "In two or three years, we might say, 'We had a moment where the banks were broke, credit cards didn't have much credit left, when Americans were beginning to rethink consumerism, when we really could have turned the page,' " Barber says. "Or we might be saying, 'We talked ourselves back into the old fixes,'" such as rebate checks and even telling Americans directly to go out and spend, as President Bush did after 9/11.

With baby boomers' habits well ingrained, it may instead be generation X and generation Y who decide to embrace a simpler, less wasteful lifestyle, rebelling against the conspicuous consumption that their parents helped make the American way of life.