

# **The Over-Consumption Myth and Other Tales of Economics, Law and Morality**

by Elizabeth Warren<sup>1</sup>

*Author's Note: This paper is part of a much larger project based on original data from the 2001 Consumer Bankruptcy Project. I selected this one for presentation because it gives an overview of some of the central pieces, but the data can be dissected in a number of different ways. One series of papers focuses on families with children, another on the impact of race, a third on employees who are forced into self-employment, and a fourth on health care finance issues. Just as the data can be analyzed from many perspectives, so can the policy implications. I am glad to head in any direction suggested by those in attendance, whether within the four corners of this paper or far afield.*

## **Introduction**

As American families sink deeper in debt, they have endured non-stop criticism from multiple quarters. Economists and sociologists have set the pace, describing families' collective lust for goods they could easily forgo. Powerful politicians and the popular press have picked up the theme, chiding families for their profligate ways. The accusations are sharp, the assertions are confident and unambiguous, and the tone of condemnation is unmistakable.

Economist Robert Frank claims that America's newfound "Luxury Fever" forces middle-class families "to finance their consumption increases largely by reduced savings and increased debt."<sup>2</sup> Documentary filmmaker John de Graaf and Duke Economics Professor Thomas Naylor explain in *Affluenza: The All-Consuming Epidemic*, "It's as if we Americans, despite our intentions, suffer from some kind of Willpower Deficiency Syndrome, a breakdown in affluenza immunity."<sup>3</sup> They assert that Americans have a new character flaw—"the urge to splurge."<sup>4</sup> Economist Juliet Schor echoes the theme, explaining that American families are buying "designer clothes, a microwave, restaurant meals, home and automobile air conditioning, and, of course, Michael Jordan's ubiquitous athletic shoes, about which children and adults both display near-obsession."<sup>5</sup>

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<sup>1</sup> Leo Gottlieb Professor of Law, Harvard Law School. Many of the ideas and research for this paper are drawn from ELIZABETH WARREN & AMELIA WARREN TYAGI, *THE TWO-INCOME TRAP: WHY MIDDLE CLASS MOTHERS AND FATHERS ARE GOING BROKE* (Basic 2003). I am grateful to my co-author for her work on the book and for her generous permission to borrow from that work. I appreciate Randi Segatore's patient help with the data tables.

<sup>2</sup> Robert H. Frank, *Luxury Fever: Why Money Fails to Satisfy in an Era of Excess* (New York: Free Press, 1999), p. 45.

<sup>3</sup> John de Graaf, David Waan, and Thomas H. Naylor, *Affluenza: The All-Consuming Epidemic* (San Francisco: Barrett-Koehler, 2001), p. 13.

<sup>4</sup> Graaf, Waan, and Naylor, *Affluenza*, p. 13.

<sup>5</sup> Juliet B. Schor, *The Overspent American: Upscaling, Downshifting, and the New Consumer* (New York: Basic Books, 1998), p. 11.

Senator Oren Hatch, R-UT, a senior spokesman of the United States Senate, pushes the same agenda. He explains that millions of Americans are bankrupt or near-bankrupt because “they run up huge bills and then expect society to pay for them.”<sup>6</sup> He is joined by federal Judge Edith Jones, long-rumored to be a potential Bush appointee to the Supreme Court. She asserts that “[b]ankruptcy is increasingly seen as a big ‘game,’ with the losers being those who live within their means, while the bankrupts pursue more interesting and carefree lives.”<sup>7</sup>

The popular press sounds the same notes. *Newsweek* ran a multi-page cover story about Americans drowning in debt. The reason for families’ distress? “Frivolous shopping is part of the problem: many debtors blame their woes squarely on Tommy, Ralph, Gucci, and Prada.”<sup>8</sup> *Money* magazine focused on the home. “A generation or so ago ... a basic, 800-square-foot, \$8,000 Levittown box with a carport was heaven. . . . By the 1980s, the dream had gone yupscale. Home had become a 6,000-square-foot contemporary on three acres or a gutted and rehabbed townhouse in a gentrified ghetto.”<sup>9</sup>

The drumbeat shows no signs of letting up. Critics heap scorn on how Americans buy food,<sup>10</sup> clothes,<sup>11</sup> cars,<sup>12</sup> shoes,<sup>13</sup> appliances,<sup>14</sup> and vacations.<sup>15</sup>

And what have Americans gotten for all their spending? Professor Schor cites “competitive spending” as a major contributor to “the deterioration of public goods” such as “education, social services, public safety, recreation, and culture.”<sup>16</sup> Professor Frank sums it up: “The dogged pursuit for more” accounts for Americans’ “overload, debt, anxiety, and waste.”<sup>17</sup> When it comes to money, Americans’ profligate spending has dug them into a hole from which they may never recover. Or so say the critics.

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<sup>6</sup> 147 Cong. Rec. S1934 (2001) (statement of Sen. Hatch).

<sup>7</sup> Judge Edith H. Jones and Todd J. Zywicki, “It’s Time for Means-Testing,” *Brigham Young University Law Review* 177 (February 1999): 177, 218.

<sup>8</sup> Daniel McGinn, “Maxed Out,” *Newsweek*, August 27, 2001, p. 37.

<sup>9</sup> Walter L. Updegrave, “How Are We Doing? So Far, So Good. But Prosperity in the ’90s Means Meeting Seven Basic Goals,” *Money*, Fall 1990, p. 20.

<sup>10</sup> “City streets and even suburban malls sport a United Nations of restaurants.... Eating out used to be a special occasion. Now we spend more money on restaurant food than on the food we cook ourselves.” Graaf, Waan, and Naylor, *Affluenza*, p. 28.

<sup>11</sup> Daniel McGinn, “Maxed Out,” *Newsweek*, August 27, 2001, p. 37.

<sup>12</sup> “People’s expectations are much higher. They want amenities—power steering, power brakes as standard, premium sound systems.” Graaf, Waan, and Naylor, *Affluenza*, pp. 25–26.

<sup>13</sup> Schor, *The Overspent American*, p. 11.

<sup>14</sup> Appliances “that were deemed luxuries as recently as 1970, but are now found in well over half of U.S. homes, and thought of by a majority of Americans as necessities: dishwashers, clothes dryers, central heating and air conditioning, color and cable TV.” Graaf, Waan, and Naylor, *Affluenza*, p. 28.

<sup>15</sup> A financial columnist for *Money* A generation ago, the dream vacation was a modest affair: “Come summer, the family piled into its Ford country wagon (with imitation wood-panel doors) and toiled off to Lake Watchamasakee for a couple of weeks.” Now, laments the columnist, things have changed. “The rented cabin on the lake gave way to a second home high on an ocean dune.” Walter L. Updegrave, “How Are We Doing? So Far, So Good. But Prosperity in the ’90s Means Meeting Seven Basic Goals,” *Money*, Fall 1990, p. 20.

<sup>16</sup> Schor, *The Overspent American*, p. 21.

<sup>17</sup> Graaf, Waan, and Naylor, *Affluenza*, back cover.

## *The Family Balance Sheet*

The Over-Consumption Story gets a big boost from current economic data on the family. First, families have more to spend than a generation ago. A profound change has swept the nation as hundreds of thousands of mothers marched into the workforce year after year. Over the course of a few decades, the change has been nothing short of revolutionary. Mothers have entered the workforce in record numbers, shifting the number of earners in median income families from one to two.

As recently as 1976 a married mother was more than twice as likely to stay home with her children as to work full-time. By 2000, those figures had almost reversed: The modern married mother is now nearly twice as likely to have a full-time job as to stay home. Mothers are going back to work much sooner after their children are born. A mother with a three-month-old infant in 2001 is more likely to be working outside the home than was a 1960s woman with a five-year-old child.<sup>18</sup> The transformation can be felt in other ways as well. In 1965 only 21 percent of working women were back at their jobs within 6 months of giving birth to their first child. Today, that figure is higher than 70 percent.<sup>19</sup>

As a result of this change, middle class families have higher incomes than ever before.<sup>20</sup> At a time when men's real wages (inflation adjusted) have risen by about 1 percent, women's shift into paid work has boosted total median family income by about 75 percent.<sup>21</sup> Compared with families in the early 1970s, today's families have more to spend, and the data suggest they have done just that—spent their new income.

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<sup>18</sup> Calculated from Bureau of the Census, *Historical Income Tables—Families*, Current Population Survey, various Annual Demographic Supplements, Table F-14, Work Experience of Husband and Wife—All Married-Couple Families, by Presence of Children Under 18 Years Old and Median and Mean Income: 1976 to 2000.

<sup>19</sup> Kristin Smith, Barbara Downs, and Martin O'Connell, "Maternity Leave and Patterns: 1961–1995," *Household Economic Studies*, U.S. Census Bureau, November 2001, Table I, Women Working at a Job, by Monthly Interval After First Birth, 1961–65 to 1991–94.

<sup>20</sup> Poorer, less educated women have seen small gains in real wages over the past generation. Wealthy women have enjoyed considerable increases, but those gains were complemented by similar increases in their husbands' rapidly rising incomes. Both women and men who did not finish high school saw declines in real wages over the past twenty years. By contrast, among college graduates, women's earnings have increased 30 percent since 1979, while men's earnings have increased by 17 percent. U.S. Department of Labor, "Highlights of Women's Earnings in 2000," Report 952, August 2001, Table 15, Median Usual Weekly Earnings of Full-Time Wage and Salary Workers 25 and Over in Constant (2000) Dollars, by Sex and Educational Attainment, 1979–2000 Annual Averages.

<sup>21</sup> Median earnings, which are the best measure of middle-class wages, have risen less than 1 percent for men since the early 1970s, while women's earnings have increased by more than one-third. Bureau of the Census, *Historical Income Tables—People*, Current Population Survey, various Annual Demographic Supplements. Available at <http://www.census.gov/hhes/income/histinc/incperdet.html>, Table P-36, Full-Time, Year-Round Workers (All Races) by Median Income and Sex, 1955 to 2000.

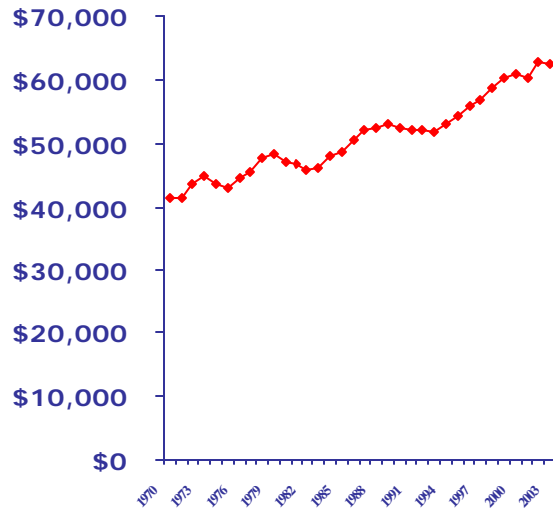


Figure One: Median Married Couple Income, 1970 – 2003, Adjusted for Inflation  
Source: U.S. Census Bureau

Even as family incomes have risen dramatically over the past generation, American families have decreased the amounts they put away. Family savings in the U.S. have decline markedly from the early 1970s to the early 2000s, with families putting away a shrinking fraction of their take-home pay.

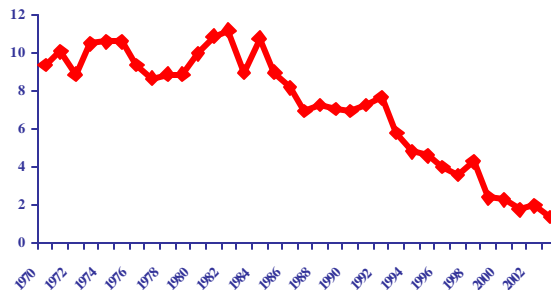


Figure Two: Savings Portion of Personal Disposable Income, 1970 – 2003  
Source: Bureau of Economic Analysis

These data demonstrate that families are spending an ever-larger fraction of what they earn. They spend now, saving less either for future purchases or as insurance against hard times.

But families are not just spending more of what they earn, they are also spending what they have not earned. Over the space of a single generation, American families have transformed from a nation of savers to a nation of spenders. As savings have fallen, debt has risen. A generation ago, the typical family owed about 5 percent of its annual income in consumer debt—non-mortgage debt such as car loans and credit cards. Today, debts have risen dramatically.

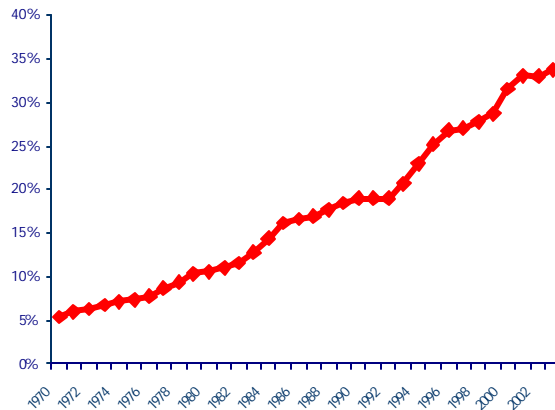


Figure Three: Consumer Debt as a Percentage of Income, 1970 – 2003  
Sources: U.S. Census Bureau, Federal Reserve Bank

Spending is taking its toll on American families—less savings and more debt. The reversal of their economic balance sheets is evident when savings and debts are put together.

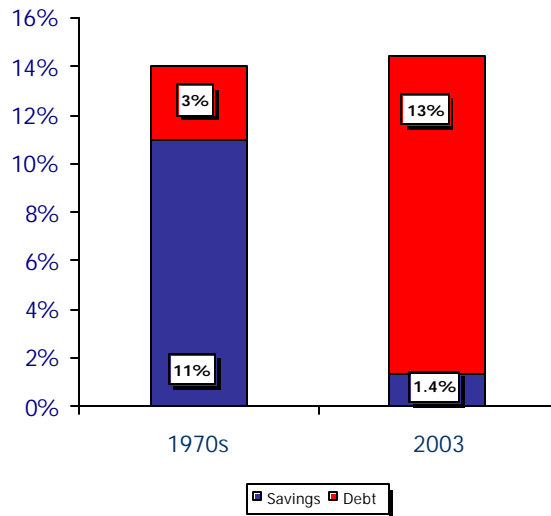


Figure 4: Savings/Credit Card Debt, 1970s – 2000s

Increased income has not saved the family balance sheet for the median earning family. The reversal in spending patterns—spending more than they earn—has taken a terrible toll on American families. Today there are five times more families filing bankruptcy than in the early 1980s.<sup>22</sup> Home foreclosures have more than tripled in less than 25 years.<sup>23</sup> Nearly half of the families with credit cards report that they have no money to make more than a minimum monthly payment on their outstanding credit card bills.<sup>24</sup> One in every three families in the U.S. with an income above \$35,000 reports owing medical bills that they cannot pay.<sup>25</sup>

<sup>22</sup> Calculation from Administrative Office of United States Courts, 1980-2003.

<sup>23</sup> The proportion of mortgages in foreclosure proceedings at the end of the quarter increased from 0.31 percent in 1979 to 1.1 percent in 2002, an increase of 255 percent. Unpublished data, Foreclosure at End of Quarter, U.S. Mortgage Bankers of America (2002). For homeowners who were initially backed by FHA single-family mortgage insurance between 1982 and 2000, married couples with children were, on average, 39 percent more likely to undergo foreclosure by 2002 than married couples without children. Single parents were 28 percent more likely than single individuals without children. U.S. Department of Housing and Urban Development (HUD), unpublished data, FHA Single-Family Mortgage Insurance Cumulative Number and Percent of Foreclosures, 1982–2002.

<sup>24</sup> Economic Analysis, Cambridge Consumer Credit Index (March 5, 2004). Those making just the minimum payment or no payment at all fell from 46% a year ago to 42%. Most significantly, when asked why they were taking on new debt, 49% of consumers said it was because they did not have enough money to pay their bills, up from 44% in March 2003”).

<sup>25</sup> Sarah Collins, Michelle Doty, Karen Davis, Cathy Schoen, Alyssa Holmgren, and Alice Ho, The Affordability Crisis in U.S. Health Care: Findings from the Commonwealth Fund Biennial Health Insurance Survey xii (March 2004) (reporting 32% of Americans aged 18-64 with incomes above \$35,000 have outstanding medical bills they cannot pay, have been contacted by collection agents on behalf of health care providers, has medical debt being paid off over time or has other sign of distress in paying medical bills).

Financial distress documented by these numbers hits hard in the middle class. It is homeowners—people who once saved money for a down payment, who showed that they had steady enough incomes to make monthly payments and who survived the most rigorous credit screen imposed in consumer financial markets—who lose their houses to foreclosure. It is people in the middle—not the richest or the poorest—who accumulate the most debt on their credit cards.<sup>26</sup> It is middle class families seeking relief in the bankruptcy courts.<sup>27</sup>

These data compose a deeply disturbing picture. Tens of millions of American families—middle class people with decent educations and respectable occupations—are living on a financial cliff. Some will hang on, and others will plunge over as they deal with the anxiety of unplanned emergencies and unpaid bills.

### *How They Spend*

If families are making more money than ever and in financial trouble, surely the critics are right: Over-consumption is rife in the land. But intuition and anecdotes are no substitute for hard data. The Over-Consumption story is advanced as fact, but without any numbers; it might be worthwhile to look at some actual data on spending.

For more than a century, the federal government has been collecting data on household spending. It is possible, for example, to track how much Americans have spent on distilled spirits dating back to the 1850s.<sup>28</sup> For the analysis here, the focus is on comparative spending changes in a single generation, sorted by spending categories and family size—with no adjustments for the increase in family income.<sup>29</sup> If families really are blowing their paychecks on designer clothes and restaurant meals, then the expenditure data should show that today's families are spending more on these frivolous

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<sup>26</sup> See Demos Report, *Borrowing to Make Ends Meet*, p. 10, figure (2003). For those who have any credit card debt, debt levels climb as income climbs. But as income climbs, the likelihood of carrying credit card debt drops off. Credit card debt is a continuum—families with the lowest incomes are more likely to carry credit card debt, but the amounts are small, while families with the highest incomes are least likely to have a balance, although those who carry balances are likely to owe the most. The families in the middle are both likely to carry debt and likely to owe substantial sums.

<sup>27</sup> When measured by enduring criteria such as education, occupation or homeownership, 91.8 percent of the families filing for bankruptcy would be deemed middle class. Elizabeth Warren, *Financial Collapse and Class Status: Who Goes Bankrupt?* (Lewtas Lecture), 41 *Osgoode Hall Law Review* 115 (2003).

<sup>28</sup> 1913 Statistical Abstract, Table 289.

<sup>29</sup> The Bureau of Labor Statistics maintains the Consumer Expenditure Survey (CES), a periodic set of interviews and diary entries, to analyze the spending behavior of over 20,000 consumer units. For much of our analysis we compare the results of the 1972–1973 CES with those of the 2000 CES. In some instances, we use pre-published tables from the 1980 or the 2000 survey in order to use the most comparable data available. My co-author Amelia Warren Tyagi and I gratefully acknowledge the valuable assistance of Eric Keil, an economist at the Bureau of Labor Statistics, in locating and interpreting these data.

items than ever before. (Throughout this discussion, all figures are adjusted for the effects of inflation.<sup>30</sup>)

The Over-Consumption story is widely told, but the hard numbers point in a very different direction. Start with clothing. The stories are legion about how Americans overspend on clothing. The malls are overflowing, Adidas and Nike clad the feet of every teenager, and designer shops rake in profits selling nothing but underwear or sunglasses. Even little children's clothes now carry hip brand names, and babies sport "GAP" or "YSL" on their T-shirts and sleepers.

And yet, when it is all added up, including the Tommy sweatshirts and Ray-Ban sunglasses, the average family of four today spends 21 percent *less* (inflation adjusted) on clothing than a similar family did in the early 1970s. How can this be? What the finger-waggers have forgotten are the things families *don't* spend money on anymore. No more rushing off to Stride Rite to buy two new pairs of sensible leather shoes for each child every three months (one for church and one for everyday) plus a pair of sneakers for play. Today's toddlers often own nothing but a pair of \$5 tennis shoes from Wal-Mart. Suits, ties, and pantyhose have been replaced by cotton trousers and knit tops, as "business casual" has swept the nation. New fabrics, new technology, and cheap labor have lowered prices. Discounters like Target and Marshall's have popped up across the country, replacing full-price department stores of a generation ago. The differences add up. In 1973, Sunday dresses, wool jackets, and the other clothes for a family of four claimed nearly \$750 more a year from the family budget than all the name-brand sneakers and hip T-shirts today's families are buying.<sup>31</sup>

If Americans are not blowing their paychecks on clothes, then they must be overspending on food. Designer brands have hit the grocery shelves as well, with far more prepared foods, high-end ice creams, and exotic juices. Families even buy bottles of water, a purchase that would have shocked their grandparents. Besides, who cooks at home anymore? With Mom and Dad both tied up at work, Americans are eating out (or ordering in) more than ever before.

The Over-Consumption Camp has it right, but only to a point. The average family of four spends more at restaurants than it used to, but it spends less at the grocery store—a lot less. Families are saving big bucks by skipping the T-bone steaks, buying their

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<sup>30</sup> All comparisons of expenditures and income are adjusted for inflation using the Inflation Calculator. U.S. Department of Labor, Bureau of Labor Statistics. Available at [www.bls.gov/cpi/home.htm](http://www.bls.gov/cpi/home.htm)

<sup>31</sup> U.S. Department of Labor, Bureau of Labor Statistics (BLS), *Consumer Expenditure Survey: Interview Survey, 1972–1973* (1997), Table 5, Selected Family Characteristics, Annual Expenditures, and Sources of Income Classified by Family Income Before Taxes for Four Person Families; *Consumer Expenditures in 2000*, BLS Report 958 (April 2002), Table 4, Size of Consumer Unit: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey 2000 (data are for four-person families); Table 4, Size of Consumer Unit: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2002, U.S. Department of Labor, Bureau of Labor Statistics, [www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04](http://www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04). See also Mark Lino, "USDA's Expenditures on Children by Families Project: Uses and Changes Over Time," *Family Economics and Nutrition Review* 13, no. 1 (2001): 81–86. According to USDA estimates, the total amount of money an average family will spend on clothing for a child between birth and age eighteen decreased 38 percent between 1960 and 2000 (Lino, p. 84).

cereal in bulk at Costco, and opting for generic paper towels and canned vegetables. Those savings more than compensate for all that restaurant eating—so much so that today’s family of four is actually spending 22 percent *less* on food (at-home and restaurant eating combined) than its counterpart of a generation ago.<sup>32</sup>

Outfitting the home? *Affluenza* authors rail against appliances “that were deemed luxuries as recently as 1970, but are now found in well over half of U.S. homes, and thought of by a majority of Americans as necessities: dishwashers, clothes dryers, central heating and air conditioning, color and cable TV.”<sup>33</sup> These handy gadgets may have captured a new place in Americans’ hearts, but they aren’t taking up much space in our wallets. Manufacturing costs are down, and durability is up. When the microwave oven, dishwasher, and clothes dryer are combined with the refrigerator, washing machine, and stove, families are actually spending 44 percent *less* on major appliances today than they were a generation ago.<sup>34</sup>

That is not to say that middle-class families never fritter away any money. A generation ago no one had cable, big-screen televisions were a novelty reserved for the very rich, and DVD and TiVo were meaningless strings of letters. So how much more do families spend on “home entertainment,” premium channels included? They spend 23 percent more—an extra \$170 annually. Computers add another \$300 to the annual family budget.<sup>35</sup> But even that increase looks a little different in the context of other spending. The extra money spent on cable, electronics, and computers is more than offset by families’ savings on major appliances and household furnishings alone.

The same balancing act holds true in other areas. The average family spends more on airline travel than it did a generation ago, but it spends less on dry cleaning. More on telephone services, but less on tobacco. More on pets, but less on carpets.<sup>36</sup> When the numbers are all added up, increases in one category are offset by decreases in another. In

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<sup>32</sup> BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditures in 2000*, Table 4. Table 4, Size of Consumer Unit: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2002, U.S. Department of Labor, Bureau of Labor Statistics, [www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04](http://www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04). See also Eva Jacobs and Stephanie Shipps, “How Family Spending Has Changed in the U.S.,” *Monthly Labor Review* 113 (March 1990): 20–27.

<sup>33</sup> Graaf, Waan, and Naylor, *Affluenza*, p. 28.

<sup>34</sup> BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditure Survey, 2000* (pre-published data), Table 1400, Size of Consumer Unit: Average Annual Expenditures and Characteristics (data are for four-person families); Table 4, Size of Consumer Unit: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2002, U.S. Department of Labor, Bureau of Labor Statistics, [www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04](http://www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04).

<sup>35</sup> BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditure Survey, 2000*, Table 1400; Table 4, Size of Consumer Unit: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2002, U.S. Department of Labor, Bureau of Labor Statistics, [www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04](http://www.bls.gov/cex/2002/Standard/cusize/pdf5/18/04). Electronics comparison includes expenditures on televisions, radios, musical instruments, and sound equipment. Computer calculation includes computer hardware and software.

<sup>36</sup> For example, in 2000 the average family of four spent an extra \$290 on telephone services. On the other hand, the average family spent nearly \$200 less on floor coverings, \$210 less on dry cleaning and laundry supplies, and \$240 less on tobacco products and smoking supplies. BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditure Survey, 2000*, Table 1400.

other words, there seems to be about as much frivolous spending today as there was a generation ago.

There is no evidence of any “epidemic” in overspending—certainly nothing that could explain a 255 percent increase in the foreclosure rate, a 430 percent increase in the bankruptcy rolls, and a 570 percent increase in credit card debt.<sup>37</sup> A growing number of families are in terrible financial trouble, but no matter how many times the accusation is hurled, Prada and HBO are not the reason.

### *Where Did the Money Go?*

They have more money and they aren’t spending themselves into oblivion on designer water and DVDs, so how did middle-class families get into so much financial trouble? The answer starts, quite literally, at home.

It would be possible to pile cliché on cliché about the home, but restraint forces me to settle for this observation: The home is the single most important purchase for the average middle-class family. To the overwhelming majority of Americans, home ownership stands out as the single most important component of “the good life.”<sup>38</sup> Homes mark the lives of their children, setting out the parameters of their universe. The luck of location will determine whether there are computers in their classrooms, whether there are sidewalks for them to ride bikes on, and whether the front yard is a safe place to play. And a home will consume more of the family’s income than any other purchase—more than food, more than cars, more than health insurance, more than childcare.

As anyone who has read the newspapers or purchased a home knows, it costs a lot more to buy a house than it used to.<sup>39</sup> (Because the overwhelming majority of middle-class families are homeowners, this discussion focuses on the costs of owning, rather than renting.<sup>40</sup>) What is easy to forget, however, is that today’s home prices are *not* the product of some inevitable demographic force that has simply rolled its way across America. Quite the opposite. In the late 1980s, several commentators predicted a

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<sup>37</sup> Total revolving debt (which is predominantly credit card debt) increased from \$64,500,000 in 1981 to \$692,800,000 in 2000. SMR Research Corporation, *The New Bankruptcy Epidemic: Forecasts, Causes, and Risk Control* (Hackettstown, NJ, 2001), p. 14. Bankruptcy data calculated from data reported by Administrative Office of the United States Courts, Table F2 (total nonbusiness filings), 1980–2002.

<sup>38</sup> Carolyn Setlow, “Home: The ‘New’ Destination,” *Point of Purchase*, July 1, 2002.

<sup>39</sup> Today the median sale price for an existing home is more than \$150,000—up 32 percent in inflation-adjusted dollars from 1975. Joint Center for Housing Studies, Harvard University, *The State of the Nation’s Housing, 2002* (Cambridge, MA, 2002), Table A-1, Housing Market Indicators, 1975–2001.

<sup>40</sup> In 2001, 79.1 percent of married couples with children were homeowners. U.S. Department of Housing and Urban Development Office of Policy Development and Research. U.S. Housing Market Conditions (Fourth Quarter, 2002), Table 30, Homeownership Rates by Household Type, 1983–Present. <http://www.huduser.org/periodicals/ushmc/Summer2004/USHMC-04Q2.pdf> (October 1, 2004). Although the data are not reported for subgroups, presumably this rate was lower for low-income families, and even higher for middle- and upper-income families. In the general population, middle-income households are 34 percent more likely than low-income households to own a home. Calculated from Joint Center for Housing Studies, *State of the Nation’s Housing*, Table A-9.

spectacular collapse in the housing market. Economists reasoned that the baby boomers were about to become empty nesters, so pressure on the housing market would undergo a sharp reversal. According to these experts, housing prices would reverse their forty-year upward trend and drop during the 1990s and 2000s—anywhere from 10 to 47 percent.<sup>41</sup>

The Over-Consumption diehards are clearing their throats, eager to interrupt to explain why housing prices shot up despite expert predictions. If they cannot sustain their claim that families are spending too much on frivolous purchases, these critics can simply adjust their chant to declare that Americans' materialistic and shallow motivations have driven housing prices up. *Money* magazine captures this view: "A generation or so ago. . . a basic, 800-square-foot, \$8,000 Levittown box with a carport was heaven. . . . By the 1980s, the dream had gone yupscale. Home had become a 6,000-square-foot contemporary on three acres or a gutted and rehabbed townhouse in a gentrified ghetto."<sup>42</sup>

Where did so many people get this impression? Perhaps from the much ballyhooed fact that the average size of a new home has increased by nearly 40 percent over the past generation (although it is still less than 2,200 square feet).<sup>43</sup> But before the Over-Consumption group declares victory, there are a few more details to consider. Those data tell us only where real estate developers are aiming new home construction, that they have decided that McMansions are more profitable than Levittowns.

The top twenty percent of the income distribution may be living in spacious digs, but those new homes are not snapped up by median earning families. The proportion of families living in older homes has increased by nearly 50 percent over the past generation, leaving a growing number of homeowners grappling with deteriorating roofs, peeling paint, and old wiring. Today, nearly six out of ten families own a home that is more than twenty-five years old, and nearly a quarter own a house that is more than fifty years old.<sup>44</sup>

Despite all the hoopla over the highly visible status symbols of the well-to-do, the size and amenities of the average middle-class family home have increased only modestly. The median owner-occupied home grew from 5.7 rooms in 1975 to 6.1 rooms

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<sup>41</sup> Patric H. Hendershott, "Are Real House Prices Likely to Decline by 47 Percent?" *Regional Science and Urban Economics* 21, no. 4 (1991): 553–563. See also N. Gregory Mankiw and David N. Weil, "The Baby Boom, the Baby Bust, and the Housing Market," *Regional Science and Urban Economics* 19, no. 2 (1989): 235–258. Jonathan R. Laing, "Crumbling Castles: The Recession in Real Estate Has Ominous Implications," *Barron's*, December 18, 1989.

<sup>42</sup> Updegrave, "How Are We Doing?" p. 20.

<sup>43</sup> Joint Center for Housing Studies, *State of the Nation's Housing*, Table A-1.

<sup>44</sup> The proportion of owner-occupied houses twenty-five years or older grew from 40 percent in 1975 to 59 percent in 1999. U.S. Department of Commerce, Bureau of the Census, *American Housing Survey, 1999*, Current Housing Reports, H150/99 (October 2000), Table 3-1, Introductory Characteristics—Owner Occupied Units; *American Housing Survey: 1975, General Housing Characteristics*, Current Housing Reports, H-150-75A (April 1977), Table A1, Characteristics of the Housing Inventory, 1975 and 1970.

in the late 1990s—an increase of less than half of a room in more than two decades.<sup>45</sup> What was this half a room used for? Was it an “exercise room,” a “media room,” or any of the other exotic uses of space that critics have so widely mocked? Nope. The data show that most often that extra room was a second bathroom or a third bedroom.<sup>46</sup> These are meaningful improvements, to be sure, but the average middle-class family in a six-room house has hardly rocketed to mansion status.

As millions of families sent a second earner into the workforce and pushed up total family income, one might expect that they would spend *less* on housing as a proportion of total income. Instead, just the opposite has occurred. A growing number of middle-class families now spend *more* on housing relative to family income.<sup>47</sup> Over a generation, the median family increased the number of rooms in their homes by 7 percent, but their mortgage expenses took a leap of 69 percent at a time that other family expenditures fell.<sup>48</sup> As food, clothing, home furnishings, and the like remained steady or fell, families across America were loading up on mortgages like never before to buy those homes.

The impact of rising mortgage costs has been huge. The proportion of families who are “house-poor,” that is, who are spending more than 35 percent of their incomes on housing has quadrupled in a single generation.<sup>49</sup> Today it takes two working people to

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<sup>45</sup> Bureau of the Census, *American Housing Survey: 1975, General Housing Characteristics*, Current Housing Reports, H-150-75A, Table A1; *American Housing Survey, 1997*, Current Housing Reports, H150/97 (October 2000), Table 3-3, Size of Unit and Lot—Owner Occupied Units.

<sup>46</sup> Bureau of the Census, *American Housing Survey: 1975, General Housing Characteristics*, Current Housing Reports, H-150-75A, Table A1; *American Housing Survey, 1999*, Current Housing Reports, H150/99, Table 3-3.

<sup>47</sup> The Consumer Expenditure Survey indicates that mortgage payments as a proportion of income has increased considerably since the early 1970s (see above). Many indexes that measure housing affordability have shown no clear trend. These indices, however, typically calculate a *theoretical* housing cost, based on such factors as current mortgage rates and an imputed down payment amount. As a result, the indices are extremely sensitive to fluctuations in interest rates, ignoring the fact that many families have fixed-rate mortgages and do not refinance during periods of high interest. Similarly, these indices typically assume that all buyers get a conventional mortgage, which ignores the extraordinary rise in high-cost subprime mortgages in recent years. Furthermore, they assume that the typical down payment has held constant over the past generation, when in fact first-time home buyers are putting down far smaller down payments today than twenty years ago. See, for example, Bureau of the Census, “Who Could Afford to Buy a House in 1995?” Table 4-2, Affordability Status of Families and Unrelated Individuals for a Modestly Priced Home, by Current Tenure and Type of Financing, United States, 1984, 1988, 1991, 1993, and 1995. See also Joint Center for Housing Studies, *State of the Nation’s Housing*, Table A-3. We continue to believe that the best evidence of real housing costs is the direct data on what families report they are actually paying.

<sup>48</sup> BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditure Survey, 2000*, Table 1400. Note that in 2000, 74 percent of married couples with children owned their own homes; in 1972/73 this figure was 71 percent. In order to isolate the effects of changing supply and demand for owner-occupied housing, this calculation only accounts for changes in mortgage expenditures (including both interest and principal) by families who owned their own homes. Federal Reserve data produce similar results (see above).

<sup>49</sup> The proportion of middle-income families who would be considered “house poor” has quadrupled since 1975. Bureau of the Census, *Annual Housing Survey for the United States and Regions, 1975, Part C, Financial Characteristics of the Housing Inventory*, Annual Survey (1977), Table A-1, Income of Families and Primary Individuals in Owner and Renter Occupied Housing Units, 1975. Available at <http://www.census.gov/prod/www/abs/h150.html>; *American Housing Survey for the United States: 2001*,

support a mortgage in most metropolitan areas. For example, the average police officer could not afford the mortgage for a median priced home in two-thirds of the nation's metropolitan areas on the officer's income alone.<sup>50</sup> The same is true for elementary school teachers. This phenomenon is not limited to high-cost cities such as New York and San Francisco. Without a working spouse, the family of a police officer or teacher is priced out of a median home even in more modestly priced cities such as Nashville, Kansas City, and Charlotte.

Families have been hit hard by more than mortgage costs. The rising cost of health care has taken a terrible bite out of the family budget. If we focus on only the healthy family—an unrealistic assumption, but one that makes the point even sharper—medical costs are up dramatically. For the families lucky enough to have an employer who contributes to their health insurance program, the costs of keeping a family covered have risen dramatically. In one generation, the out-of-pocket cost of employer-subsidized health insurance has jumped by about 90 percent.<sup>51</sup> Of course, median earning families are not all spending this amount. Some are lucky enough to have employers who pick up the entire tab. For a growing number, however, the employer offers no assistance, and the family either buys on the open market or gives up on health insurance altogether. In recent years, the number of middle class families with no health insurance has grown precipitously.<sup>52</sup>

Spending on cars is also up. At first glance it would seem that the family car might just shatter the case against the Over-Consumption Myth. Cars now come jam-packed with automatic gizmos that no one had even dreamed of a generation ago. And cars cost more than ever. The average family now spends an *additional* \$4,000 (inflation

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Annual Survey (2001), Table 2-20, Income of Families and Primary Individuals by Selected Characteristics—Occupied Units. Available at <http://www.census.gov/hhes/www/housing/ahs/ahs01/tab313.html>.

<sup>50</sup> Barbara J. Lipman, Center for Housing Policy, "Paycheck to Paycheck: Working Families and the Cost of Housing in America," *New Century Housing* 2 (June 2001): 24–26.

<sup>51</sup> In the early 1970s, the employee's portion of the health insurance bill took \$1,650 from the couple's paychecks. BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5. In 1972/73, the average family of four spent \$160 (inflation adjusted to \$640) on private health insurance (not including expenditures on Medicare). However, 38 percent of these families spent nothing whatsoever on health insurance, typically because they were uninsured, although in some cases because they were covered by a government program such as Medicaid or because they had a particularly generous employer who paid the entire bill. In order to get a more accurate picture of the average health insurance burden on a middle-income, insured family (who would not typically qualify for Medicaid), we have included in our calculation only those families who spent at least \$1 on health insurance. For our estimate for a middle-class family's typical expenditures on health insurance, the calculation is as follows: \$640 (average expenditures on health insurance) divided by 62 percent (the portion of families who reported expenditures on private health insurance) = \$1,027. Using the same manner of calculation, by the early 2000s, the cost had risen to \$1,650. BLS, *Consumer Expenditure Survey, 2000*, Table 1400. Privately gathered data suggest that since 2000, the rise in the costs borne by employees has increased even faster. In just two years, the cost of health insurance premiums increased by 28.4%. Brian Klepper, HealthLeaders News (Feb. 16, 2004).

<sup>52</sup> Between 2001 and 2003, for example, the number of employed adults under age 63 increased by nine million. Employer Health Benefits 2003 Annual Survey: Summary Findings, Henry J. Kaiser Family Foundation ([www.kkf.org/ehbs2003-1-set.cfm](http://www.kkf.org/ehbs2003-1-set.cfm) cited in America's Achilles Heel: Job-Based Health Coverage and the Uninsured, Century Foundation Guide to the Issues, at 6 (2004). (coverage fell from 67% of workers in 2000 to 63% of employees in 2003).

adjusted) every year to buy, lease, and maintain the family automobiles.<sup>53</sup> In the words of a Toyota salesman quoted in *Affluenza*, “People’s expectations are much higher. They want amenities—power steering, power brakes as standard, premium sound systems.”<sup>54</sup> At last, a big-ticket item that proves that Americans are indeed indulging themselves with lavish extravagances they can ill afford.

There is no doubt that families are spending more, but not because they are upgrading to Corinthian leather and built-in seat warmers. Instead, the typical family with children spent its money on something a bit more prosaic—a second car.<sup>55</sup> Once an unheard-of luxury within the middle class, the second car has become a necessity. With Mom in the workforce and the family located ever further from the city’s center, that second car became the only means for running errands, earning a second income, and getting by in the far-flung suburbs.<sup>56</sup>

What about the price tag on that second car? An average new car costs more than \$22,000 today, compared with less than \$16,000 in the late 1970s (inflation adjusted).<sup>57</sup> The critics might point a triumphant finger, but they would miss another important fact. Cars last longer than they used to. In the late 1970s, the average car on the road was just five and a half years old. Now the average family is driving a car that is more than eight years old.<sup>58</sup> Today’s families pay more for that shiny new vehicle than their parents did, but they hold on to it longer too. In fact, when we analyzed unpublished data from the Bureau of Labor Statistics, we found that the average amount a family of four spends *per car* (car payments, insurance, maintenance and so forth) is 20 percent *less* than it was a generation ago.<sup>59</sup> For all the griping about those overpriced SUVs, there is little evidence that sunroofs and power windows are sending families to the poorhouse.

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<sup>53</sup> BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditures in 2000*, Table 4.

<sup>54</sup> Graaf, Waan, and Naylor, *Affluenza*, pp. 25–26.

<sup>55</sup> According to the Bureau of Labor Statistics, the average four-person family had 1.7 vehicles a generation ago; today they have 2.5, an increase of nearly one (0.8) car per family. This is a big jump, but it isn’t clear that over-consumption is to blame. The trick is in the averages. Many four-person families have more than two adults at home, such as a son in college, an elderly grandparent, or even a brother-in-law who doesn’t have his own place. The number of adults in the average family of four is 2.4 today (up just slightly from 2.3 a generation ago). This means that the average family has shifted from owning 0.7 vehicles per adult to 1.0 vehicles per adult. In other words, as Mom headed to the office and families moved deeper into the suburbs, they have indeed splurged, seeing to it that each adult has his or her own vehicle so they can get to work, school, and market. BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditures in 2000*, Table 4.

<sup>56</sup> Homeowners’ median distance to work increased from 7.9 miles in 1975 to 10 miles in 1999. Bureau of the Census, American Housing Survey, 1975, General Housing Characteristics, Current Housing Reports H-150-75A, Table A1. Bureau of the Census, *American Housing Survey, 1999*, Current Housing Reports H150/99 (October 2000), Table 2-24, Journey to Work—Occupied Units.

<sup>57</sup> U.S. Department of Energy, Office of Transportation, “Automobile Affordability, 1979–1999,” *OTT Fact of the Week* 121, March 20, 2000. Available at [www.ott.doe.gov/facts/archives/fotw121.shtml](http://www.ott.doe.gov/facts/archives/fotw121.shtml).

<sup>58</sup> Patricia S. Hu and Jennifer R. Young *Summary of Travel Trends: 1995 Nationwide Personal Transportation Survey* (Washington, DC: U.S. Department of Transportation, Federal Highway Administration, December 1999), Table 20, Distribution of Vehicles by Vehicle Age and Vehicle Type, 1969, 1977, 1983, 1990, and 1995 NPTS (percentage of total vehicles).

<sup>59</sup> BLS, *Consumer Expenditure Survey: Interview Survey, 1972–1973*, Table 5; *Consumer Expenditures in 2000*, Table 4.

Leather interiors may not be responsible for the rise in bankruptcies, but the over-consumption camp might still argue that families could have saved by buying cheaper cars. After all, a family doesn't *need* a new SUV with a CD player, at least not in the same way that it needs decent day care or a home in a safe neighborhood. But we pause here to offer a bit of sympathy for the much-maligned buyer of the family car. The din from the car industry has changed pitch over the past generation. Glance at an advertisement from any maker of family cars, and there you'll see it: safety for sale. This testimonial is featured on the official Volvo Web site: "The driver of the truck lost control of his vehicle and hit me, and my wife, who was five months pregnant. . . . There was much talk that 'the Volvo had saved our lives' and I'm convinced it did. . . . I wish to thank the people at Volvo for the lives of my wife and my child . . . ." <sup>60</sup> Sure, maybe families could do without the twelve-speaker sound systems, but we wouldn't ask them to do without the automatic braking systems, the crash-resistant steel frames, or the dual airbags that they are spending all that money on.

But do the cars have to be so *big*? SUVs may drink gasoline with abandon, but families are also buying room for safety devices that didn't even exist in the early 1970s. Every time I strap my granddaughter into the car, I am reminded of what I did when Amelia was a baby. I tucked her in a wicker bassinet, which perched on the back seat of our Volkswagen Beetle. I was somewhat unusual—not because I failed to use so much as a seat belt to hold my seven-pound daughter in place—but because I opted not to hold her in my lap, where a simple fender bender would have transformed her into a free-flying projectile.

Safety standards have changed, with a real effect on the family pocketbook. My daughter wouldn't even think of driving her toddler to the end of the block without strapping her into a plastic seat so enormous that she looks like an astronaut preparing to launch into outer space. She shelled out more than \$100 for that seat, but the real expenditure was for her car. A few years ago she was driving a little two-door Mazda—more or less the modern equivalent of my Beetle. But when the baby came, the Mazda had to go, replaced by a four-door car big enough for two car seats (with the thought that her first-born may one day have a younger brother or sister to pick on). It gets particularly tough for families with more than two kids. Jane Stewart, a stay-at-home mom in Denver, describes the consequences of having three children under the age of five. According to many experts, the Stewarts should harness those three kids in the back seat—not just with a seat belt, but into a bulky car seat or "booster seat" designed especially for children—until they are at least *eight years old*. <sup>61</sup> Jane explains, "We have a Grand Cherokee and three car seats in the back. When the baby needs [the next-size car seat], we don't think all three will fit. Then it will be time for a Suburban or a minivan." A generation ago, the Stewarts could have fit their kids into the back seat of any sedan on the market, with room left over for the family dog. Today, even a Jeep Grand Cherokee—

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<sup>60</sup> "Volvo Saved My Life," *Volvo.com*. Available at [http://new.volvocars.com/whyvolvo/why\\_save\\_my\\_life.asp](http://new.volvocars.com/whyvolvo/why_save_my_life.asp).

<sup>61</sup> Melanie Haiken, "Car Seat Safety: How to Choose and Use a Car Seat: Why Does my Child Need a Booster Seat?" Parentcenter.com, <http://www.parentcenter.com/refcap/39413.html>.

a car that weighs 4,000 pounds—is not big enough. The critics may be right that families don't need all those gizmos in their cars, but we would certainly take sides with the Stewarts against anyone who argued that they didn't need all that *room*.

By and large, families have spent prudently on their automobiles, or at least as prudently as they did a generation ago. And the money they are spending is paying off: The rate of child auto fatalities has declined steadily since the mid-1970s, thanks at least in part to safer cars and better car seats.<sup>62</sup> For all the criticism hurled at car manufacturers (and car buyers), it is important to note that families drive stronger, safer cars that last a lot longer than they used to.

### *Adding It All Up*

The Over-Consumption story dominates any discussion of the financial condition of America's families, but when all the plusses and minuses of changes in family spending are added up, a very different picture emerges. Families are spending less on ordinary consumption and more on the basics of being middle class.

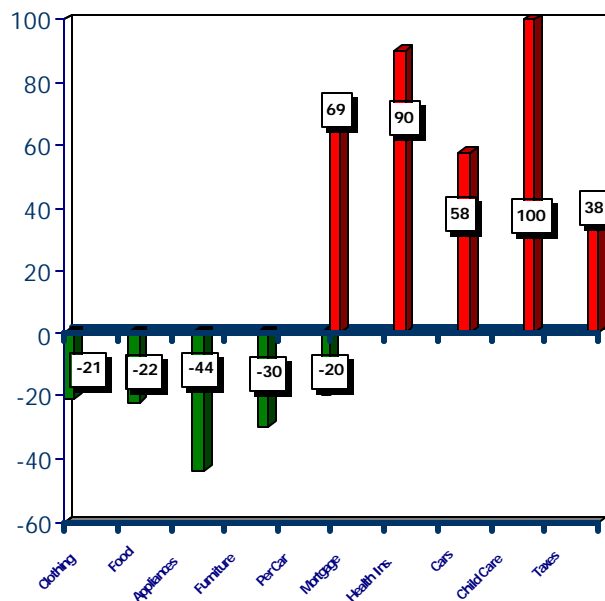


Figure 5: Median Family Spending by Category, Percent Change 1970s – 2000s

<sup>62</sup> Insurance Institute for Highway Safety, *Fatality Facts—Children, 2001* (Arlington, VA: IIHS, October 2001).

These data tell a story of middle class families clipping coupons and buying pasta in bulk, while they hemorrhage money to pay the bills for their mortgages, their health insurance, transportation and childcare.<sup>63</sup>

The changes in income and in expenses have transformed the family budget. A generation ago, the median family kept one parent at home and put one into the workforce. Today, the median family puts both parents to work, but their basic expenses have outrun even the addition of a second worker. Even with two people in the workforce, the new family budget still leaves families trailing their one-income parents from a generation ago.

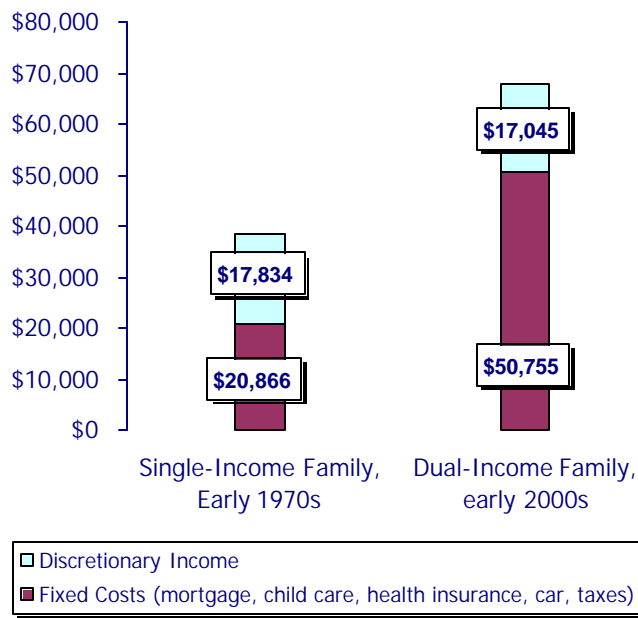


Figure 6: Fixed Costs as a Share of Family Income

The new family budget is notable first for the sharp dissonance between earning and spending. The two-income family of the 2000s has less money to spend on every consumption good—food, clothing, appliances, furniture, life insurance, vacations, etc.—than the one income family of a generation. They now have two people at work, but less money for spending.

But the new family budget is notable for another reason: It is far more deeply leveraged. A generation ago, the one-income family committed about 54 percent of its

<sup>63</sup> Childcare is shown as a 100% cost increase from the 1970s to depict this new cost. In fact, the median income family of 1970 had no childcare costs, which means that the increase cannot be expressed as a percentage.

pay to the basics—housing, health insurance, transportation and taxes. In effect, the one-income family spent about half its income to make the nut—the basic expenses that do not vary if someone gets sick or loses a job. Today, the basic expenses consume 75 percent of the family’s combined income. Their nut—the amount that they must pay in good times and in bad—is fixed at 75 percent of their income. With 75 percent of income earmarked for fixed expenses, today’s family has no margin for error. There is no leeway to cut back if one parent’s hours are cut or if the other gets laid off. There is no room in the budget if someone needs to take a few months off work to care for Grandma, or if a parent hurts his back and can’t work. The modern American family is walking on a high wire without a net; they pray there won’t be any wind. If all goes well, they will make it across safely, their children will grow up and finish college, and they will move on to retirement. But if anything—anything at all—goes wrong, then today’s two-income family is in big, big trouble.

The expenses laid out here are averages, and plenty of families manage to pay less (or more). But the alternatives families have pursued in an effort to make ends meet bear some scrutiny. Consider childcare. Government statistics show that the average amount a family of four spends on after-school care is lower than the \$4,350 cited above. The number reported here is calculated based on reports of families who pay for their childcare, but the government “average” includes children who have a grandmother or an older sibling who watches them for free. That is a great way for those lucky families to save some money, but it doesn’t do a bit of good for the typical family that has to rely on paid childcare. For them, paying less money means getting less quality, such as an unlicensed neighbor who parks several children in front of her television or an overcrowded center with barely passable facilities. The cost of childcare is also on the march. From 2000 to 2003 alone, the cost of childcare increased 19%.<sup>64</sup>

There are other ways families could save money. Families could also cut their health insurance expenses. They could drop those costs to zero by following the model of millions of other middle-class families who simply live without health insurance and pray for the best.<sup>65</sup> Or they could give up the house and move into an apartment in a marginal neighborhood. There are always options, but for families with children, these options signal that their middle-class lives are slipping away.

Even if they are able to trim around the edges, families are faced with a sobering truth: Every one of those expensive items—mortgage, car payments, insurance, tuition—is a fixed cost. Families must pay them each and every month, through good times and bad times, no matter what. Unlike clothing or food, there is no way to cut back from one month to the next. Short of moving out of the house, withdrawing a child from preschool,

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<sup>64</sup> In 2000, a family with 2 children under age five in full-time daycare was spending \$10,860 on childcare. By 2004, that figure had increased to approximately \$12,910. Calculated from 1999 Census Reports and detailed Consumer Price Index, reporting average price increases for childcare and nursery care.

<sup>65</sup> The Congressional Budget Office estimates that about 21-31 million Americans have no health insurance during the year, and 57 to 59 million Americans are without health insurance at some point during the year. Cite in *Achilles Heel*, supra note \_\_\_. The number of adults without health insurance has increased by about nine million in just three years. *Employer Health Benefits 2003 Annual Survey*, supra note \_\_\_.

or canceling the insurance policy altogether, the families are stuck. Fully 75 percent of their income is earmarked for recurrent monthly expenses.

If all goes well, many families will squeak by. They will even get a breather in another five years or so, when their children are old enough to be left alone after school. But the spending hiatus will last for just a few years, until the older child heads off to college. At that point, the family's budget will be squeezed harder than ever as they search for the money to cover room, board, and tuition for the local state university.<sup>66</sup> If they are lucky, they will have set something aside during the intervening years, and they will find a way to put their kids through college. And when they hit their mid- to late fifties, these couples might begin to think about putting something away for their retirement (about thirty years later than a financial planner would recommend).<sup>67</sup>

And so go the lives of the families with "affluenza," "the urge to splurge," and other clever variation on rampant materialism. Some will cling to the idea that these families over consume, but they can do so only with a deliberate disregard for the data that tells a very different story.

### **Why The Myth Is So Forceful**

If there is so little evidence that middle-income Americans are on an unrestrained buying binge, and so much evidence that the basic costs to hold on to a place in the middle class are increasing, then why does the Over-Consumption Myth persist? Why does a story of misbehavior and irresponsibility win out over a story of hard working people who get caught up in job losses, medical debts and family breakups? Why is there no acknowledgement that financial misfortune is often a matter of bad luck, and that irresponsible spending has little to do with the long lines at the bankruptcy courts and the high rates of credit card default?

One explanation is overtly political. High interest credit card issuers and sub-prime mortgage lenders operate only because a careful combination of deregulation and protective regulation permits creditors to charge fees and interest rates that would have landed them in jail less than twenty-five years ago.<sup>68</sup> If millions of Americans believed that families were losing their homes and they were left to cope with repo agents and aggressive bill collectors because they have been fleeced by deceptive marketing and oppressive contract terms, then the regulations that support billions of dollars of profits in the consumer credit industry could be easily changed. If, however, Americans believe

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<sup>66</sup> From 1980 to 2000, the share of the family income that would be required to send a child to a public university has doubled. National Center for Public Policy and Higher Education, *Losing Ground, A National Status Report on the Affordability of American Higher Education*, at 4, Figure 1 (2004)

<sup>67</sup> Only 52 percent of all families have a retirement account. Ana Aizcorbe, Arthur Kennickell, and Kevin Moore, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," *Federal Reserve Bulletin*, January 2003, Table 5B, Family Holdings of Financial Assets, by Selected Characteristics of Families and Type of Assets, 2001 Survey of Consumer Finances.

<sup>68</sup> For a more detailed discussion of the deregulation of consumer lending, see Warren and Tyagi, *The Two-Income Trap*, supra note \_\_\_, at 126-52.

that the only people in financial trouble are those who have misbehaved, if only the stupid or the venal are caught in a tangle of credit, then there is no reason to restrict the lenders. Everyone will be getting just what he/she/it deserves.

The Over-Consumption Myth is good for the financial services industry. In the world of statutory regulation, reality matters less than the perception of reality. The Over-Consumption Myth keeps would-be reformers at bay, and it blunts the criticism of the industry leveled by consumer groups and advocates for the elderly, for racial minorities and for women. After all, who wants to organize to defend deadbeats who are the cause of their own destruction?

Political maneuvering over the bankruptcy laws provides a good illustration. The only effective defense for a family with high, unpaid consumer debts is personal bankruptcy. When families declare bankruptcy, federal law requires that their credit card issuers and payday lenders cease collection actions of all kinds, and the debts will most likely be discharged.<sup>69</sup> An amended bankruptcy law that was more expensive for debtors to use, that was loaded with traps that would exclude more families from bankruptcy, and that provided less relief for those who completed the bankruptcy process would improve the bottom line for creditors who could continue their collection efforts even when families were drowning in debt. The credit industry drafted a long series of amendments to the bankruptcy laws;<sup>70</sup> their bill has received widespread support in Congress.<sup>71</sup> When Senator Hatch led the charge for the industry bill, he insisted that the real change needed in America is for individuals to “take personal responsibility for their debts.”<sup>72</sup>

There is no evidence that Senator Hatch was talking about responsibility for medical debts when someone got sick and had no health insurance. There is no evidence he was talking about debts run up to buy food, clothes or utilities when someone was

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<sup>69</sup> 11 U.S.C. 362, 727.

<sup>70</sup> The American Bankers Association describes the process this way:

The [industry lobbying group] AFSA hired George Wallace, a lawyer and bankruptcy expert, who wrote a report that could serve as a model for bankruptcy legislation and was paid \$100,000 in lobbying fees in 1997. That year Mr. Tassej gave the report to then-Rep. Bill McCollum, a Republican from Florida. It was no random shot — Mr. Tassej had recently hired Tom Rosenkoetter, one of Mr. McCollum’s top aides. The AFSA strategist also knew the lawmaker and supported him, having held, that he can recall, at least at least one fundraiser for him.

“They were shopping around their proposal. I was interested,” says Mr. McCollum, now a partner at the law firm of Baker & Hostetler in Orlando.

Mr. Wallace’s work became Rep. McCollum’s framework for a new bill.

*Top Creditor Lobbyist Tassej Goes for Broke*, Am. Banker, May 17, 2001, at 1, 2001 WL 3911588.

<sup>71</sup> Stephen Nunez and Howard Rosenthal, Bankruptcy “Reform” in Congress: Creditors, Committees, Ideology, and Floor Voting in the Legislative Process, Russell Sage Foundation Working Paper #119 (unpublished manuscript) (tracing the recent history of the bill and noting the supermajorities that have voted for it at various times).

<sup>72</sup> Statement of Senator Orrin Hatch, Before the United States Senate Committee on the Judiciary, S.1301—The Consumer Bankruptcy Reform Act of 1998 (May 21, 1998). Available at <http://judiciary.senate.gov/oldsite/ogh52198.htm> [3/22/03].

unemployed. When Senator Hatch talks about people who “run up huge bills and then expect society to pay for them,”<sup>73</sup> he is speaking the language of the Over-Consumption myth. Personal responsibility for debts is about paying for the things people bought that they did not really need, not about what it means to be unemployed or to have no health insurance.

Judge Edith Jones and Professor Todd Zywicki make the connection even clearer in explaining why bankruptcies are on the rise: “if debt ‘causes’ bankruptcy, it is only because overspending and an unwillingness to live within one’s means ‘causes’ debt. In short, one can simply recharacterize the ‘debt causes bankruptcy’ thesis as ‘overspending causes bankruptcy.’”<sup>74</sup> In case anyone missed the point, they drive it home: “Bankruptcy is now too frequently a choice fostered by irresponsible spending habits and an unwillingness to live up to commitments.”<sup>75</sup>

Senator Hatch may be motivated by a willingness to assist his most ardent supporters,<sup>76</sup> but his willingness to denounce those in trouble may also be ideological. Surely Judge Jones and Professor Zywicki have little to gain in direct political contributions for advancing a bankruptcy bill that favors banks over families. The suspicion that families are in financial trouble because they over consumed is an idea that is deeply entwined with the politics of personal responsibility. The ideology of over-consumption is so seductive that even self-declared conservatives who believe in sharply-restricted government powers are willing to find new ways to involve the government in helping companies squeeze more money out of misbehaving families, turning the publicly-supported bankruptcy courts into debtor review boards and collection agents for creditors who were unwilling to spend the money to screen their own borrowers in advance or restrict their access to credit.<sup>77</sup> These conservatives are willing to see the bankruptcy courts get entangled in a debtor-by-debtor analysis of family earning and spending, all with the goal of issuing a presumptive warning to other families not to over consume.

The deep entanglement of the power of vote-buying and advancing an ideological viewpoint was explored by Princeton political scientists Steven Nunez and Howard Rosenthal. They analyzed the intersection of ideology, campaign contributions, and voting in Congress, using the example of a credit industry supported amendment to the

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<sup>73</sup> 147 Cong. Rec. S1934 (2001) (statement of Sen. Hatch).

<sup>74</sup> Judge Edith H. Jones & Todd J. Zywicki, *It’s Time for Means-Testing*, 1999 BYU L. REV. 177, 224.

<sup>75</sup> *Id.* at 208.

<sup>76</sup> For a discussion of the connection between Senator Hatch, campaign contributions, and targeted amendments to help consumer debt collectors, see, e.g., Bob Bernick, Jr., “Hatch lands in a new funding flap,” *Deseret News* (Salt Lake City) A06 (July 17, 2000) (aides to Senator Hatch “say Hatch did nothing wrong in attending a campaign fund-raiser hosted by the local attorney and then pushing an amendment to a bankruptcy reform bill that the attorney had previously asked for.”); Lesley Mitchell, “Hatch Takes Heat on Plan For Bankruptcy; Reform proposal takes away consumer safeguard, say critics,” *Salt Lake City Tribune* B6 (May 17, 2000). The single biggest contributors to Senator Hatch’s campaign coffers in the past five years have been those in the financial services industry—consumer finance, insurance and real estate. <http://www.opensecrets.org/politicians/sector.asp?CID=N00009869&cycle=2004>

<sup>77</sup> E.g., Todd Zywicki, *Bankruptcy Law as Social Legislation*, George Mason University School of Law Working Paper, 1-18.

bankruptcy laws.<sup>78</sup> Nunez and Rosenthal concluded that support for the bankruptcy bill among Republicans was largely a matter of ideology. Among Democrats, who might be less inclined to support the dominant view that human misfortune was largely a matter of just deserts, they identified enough vote buying through campaign contributions to conclude that “after controlling for ideology, we find that campaign contributions are significantly correlated with voting.”<sup>79</sup> Nunez and Rosenthal see the importance of keeping the public on board for the Over-Consumption Myth: “if public opinion tilts toward a view that it is necessary to discipline a minority of profligate, strategic debtors, then the industry bill should attract broad support . . . .”<sup>80</sup>

Over the past decade, returns to investors on credit card debt have outstripped every other form of lending—even after all the bad debt and bankruptcy losses are counted.<sup>81</sup> A multi-billion dollar wealth transfer has, in fact, taken place, but not the one the credit card industry claims has taken place. Families that have lost jobs, families that have no health insurance and families that have split apart following divorce or death of a spouse have paid billions to investors. And just to clarify the class-driven point, it is worth noting that across the U.S., half of all families have not one dollar of savings put aside for their retirements and 73% of all families have not one dollar in the stock market.<sup>82</sup> It is a fair assumption that paying dearly for consumer credit has not created a wealth transfer within the middle class, but rather a transfer from working families to upper income families. The industry has good reason to spend money to protect the income flow from debtors to shareholders.

Public relations campaigns and vote-buying in Congress actively promote the Over-Consumption Myth, and the ideological conviction that personal responsibility explains most financial misfortune advances the myth as well. But there is a third leg in the support of the Over-Consumption Myth, a leg supported by families who hope that it is true.

Perhaps the myth survives because it provides much-needed comfort in a dangerous world. There is nothing glamorous or mysterious about the events that

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<sup>78</sup> Stephen Nunez and Howard Rosenthal, Bankruptcy “Reform” in Congress: Creditors, Committees, Ideology, and Floor Voting in the Legislative Process, Russell Sage Foundation Working Paper #119 (unpublished manuscript).

<sup>79</sup> *Id.*

<sup>80</sup> *Id.* at 5.

<sup>81</sup> See note 11 *supra* for the details.

<sup>82</sup>

Percentage of All Families:

Families holding no assets in retirement accounts	47.8
Families holding no assets in stocks	78.7
Families holding no assets in mutual funds	82.3

Table 5.E, Public data, Family holdings of financial assets, by selected characteristics of families and type of assets, 1989, 1992, 1995, 1998 and 2001 surveys, 2001 Survey of Consumer Finance (bulltables.public.xls).

conspire to drive families into financial ruin. They are remarkably common, ordinary and painful. Middle class families—families that look just like our own—are facing the financial consequences of layoffs, of living without health insurance, and of trying to support two households on incomes that barely supported one. Job loss, medical problems and family breakups are cited in nearly 90 percent of all bankruptcies.<sup>83</sup> But if that means that more than a million and a half families will file for bankruptcy this year for reasons that are the hardest to plan against, then who is safe?

The Over-Consumption Myth may be a prayer. It nourishes the unspoken idea that families who have lost their financial footing are a tainted group, the “others” who are different from us. If we can believe that those in serious trouble are morally suspect, then it is easier to glance away from the harsh dangers of everyday life. Those among us who carefully clip grocery coupons, who would never buy \$200 sneakers and who always buy pasta in bulk are surely protected from a sudden jolt that could send them reeling out of the middle class. The myth supports a comforting illusion that the rest of us are safely distanced from financial collapse, making it possible to avoid that terrifying moment of connection with someone caught in a financial disaster, that frightening there-but-for-the-grace-of-God-go-I realization.

The Over-Consumption Myth may be little more than a fairy tale, but it has the power to maroon families—both emotionally and financially—just when they most need support. And it has the power to distract families who need to focus hard on their own vulnerabilities. Changes are needed to increase the safety of the middle class, both at the government and at the personal level. Modest changes that are not radical or exorbitantly expensive could increase the security of the middle class. But change requires a consensus that something is wrong. So long as Americans can be persuaded that families in financial trouble have only themselves to blame, there will be no demand to change anything. In order to get on with the difficult business of making America once again safe for middle class families, the Over-Consumption Myth must be laid to rest for good.

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<sup>83</sup> 2001 Consumer Bankruptcy Project. Among all households in bankruptcy, 85.0 percent cite income loss, medical problems, or family breakup as a reason for filing.