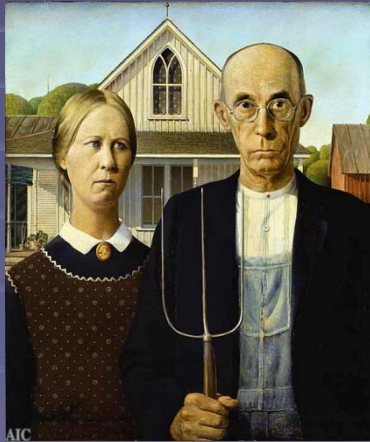


Consumerism

Akos Rona-Tas

History of Consumerism

- Central Paradox:
 - How did the Puritan tradition of thrift and asceticism turn into a culture of spending and materialism?



- It happened in three waves

The First Wave of Consumerism (1910s-1920s)



- Mass production
 - Consumer durables appear in the household
 - Electricity
 - Invented: electric washing machine and vacuum cleaner(1903), Ford's Model T (1908), refrigerator (1913 see above)
- Mass Marketing
 - The department store (Wannamaker, Marshall Fields, Woolworth, Sears etc.)
- Creation of consumer credit
 - Usury, pawnshops and borax houses (stores selling cheap goods on installment)
 - A.P. Giannini (Bank of Italy (1904) → Bank of America)
 - 1906 San Francisco earthquake
 - Charga-plate 1920s

Great Depression 1929-1941

The Second Wave of Consumerism 1945-1975

- Post-WWII boom
 - Growing productivity, rising incomes
- 1960s Women enter the labor force
- Competitive consumption
 - Income and desires are still connected –
 - Keeping up with the Joneses (your neighbors)
- Consumer credit
 - Diners Club Card (1950), Bank of America Card (1958, 1976 renamed Visa)



The U.S. has no statutory minimum annual paid leave

Table 5
Statutory Minimum and Agreed Upon Annual Paid Leave (Vacation)
By Country

Country	Statutory	Collectively agreed
Austria	25	25
Belgium	20	nd
Denmark	25	30
Finland	20	25
France	25	25
Germany	20	29.1
Greece	20	23
Hungary	20	nd
Ireland	20	20
Italy	20	28
Luxembourg	25	28
Netherlands	20	31.3
Norway	21	25
Poland	20	nd
Portugal	22	24.5
Romania	20	24
Spain	22	nd
Sweden	25	33
UK	20	24.5

Source: EIRO: 'Working time developments - 2003', March 2004

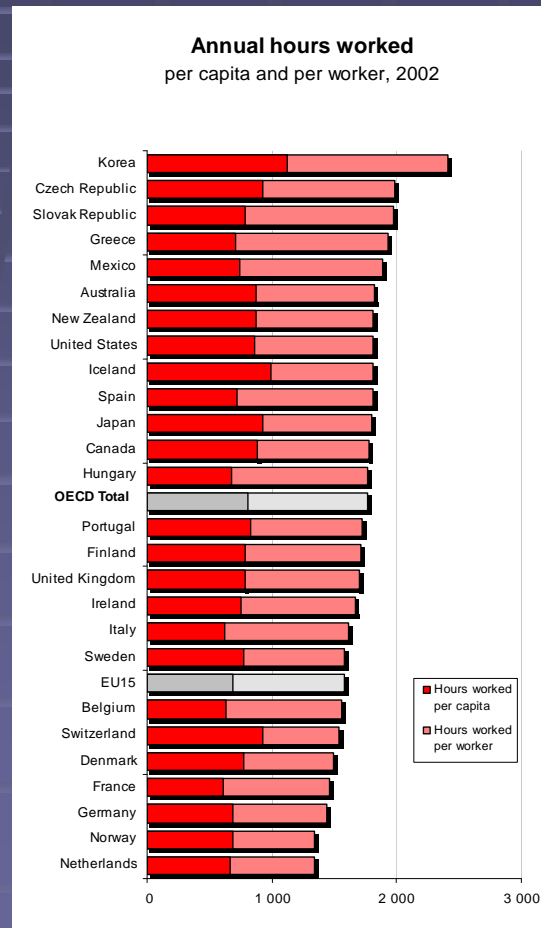
Table 3
**Breakdown of 52 Weeks into Weeks Worked, Holiday and
 Vacation Weeks, and Other Leave**

Source: reprinted from OECD Employment Outlook 2004. This entire table is taken directly from the OECD. Sickness and maternity leave estimates are adjusted for an estimated 50% underreporting rate. This is for full time employees and thus weeks worked differs slightly from Table 3.

	Annual weeks worked	Holidays and vacation weeks	Full-week absences due to non holiday reasons	Part-week absences due to non holiday reasons	Absences due to sickness & maternity
Austria	39.5	7.3	2.6	0.4	2.3
Belgium	40.3	7.1	2.2	0.5	2.0
Switzerland	42.6	6.1	1.5	0.7	1.1
Germany	40.6	7.8	1.8	0.3	1.5
Denmark	39.4	7.4	2.2	1.0	1.9
Spain	42.1	7.0	1.3	0.4	1.2
Finland	38.9	7.1	2.4	1.5	2.1
France	40.7	7.0	2.0	0.4	1.8
Greece	44.6	6.7	0.3	0.2	0.2
Hungary	43.9	6.3	0.9	0.1	0.8
Ireland	43.9	5.7	1.2	0.2	0.9
Italy	41.1	7.9	1.7	0.3	0.9
Luxembourg	41.9	7.5	1.3	0.1	1.1
Netherlands	39.6	7.6	2.0	0.8	2.0
Norway	37.0	6.5	4.0	1.1	3.5
Poland	43.5	6.2	1.2	0.3	0.9
Portugal	41.9	7.3	1.4	0.2	1.2
Sweden	36.0	6.9	3.8	1.7	3.7
United Kingdom	40.8	6.6	1.5	1.5	1.6
United States	46.2	3.9	.94		.96

For US data we calculate weeks of vacation and illness for full time heads in the PSID. We calculate weeks of holidays using Federal and stock market holidays. We allow other non-holiday absences to be the residual.

Work vs. leisure

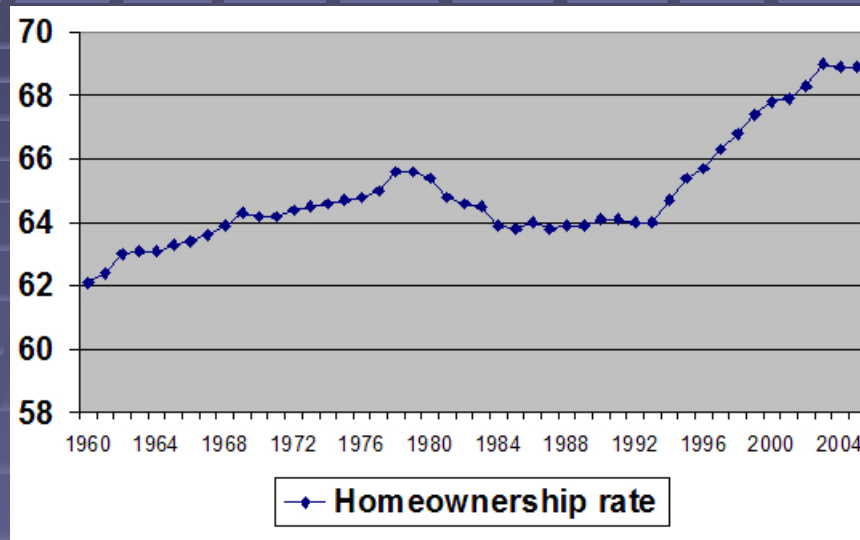


Third Wave of Consumerism mid 1970s -- 2008

- No increase in leisure
- Increasing Inequalities
 - Conspicuous spending at the top
- Mass Media
 - Growing expectations
 - Advertisement, television shows
- Credit
 - New tools for spending
 - New forms of consumer credit, over-indebtedness
- Disconnect between incomes and desires
 - The “aspiration gap” -- keeping up with the Gateses







Home ownership grew



From Modest to McMansion

The average square footage of a new single-family home

1950	 983 sq. ft.
1970	 1,500 sq. ft.
1990	 2,080 sq. ft.
2004	 2,349 sq. ft.

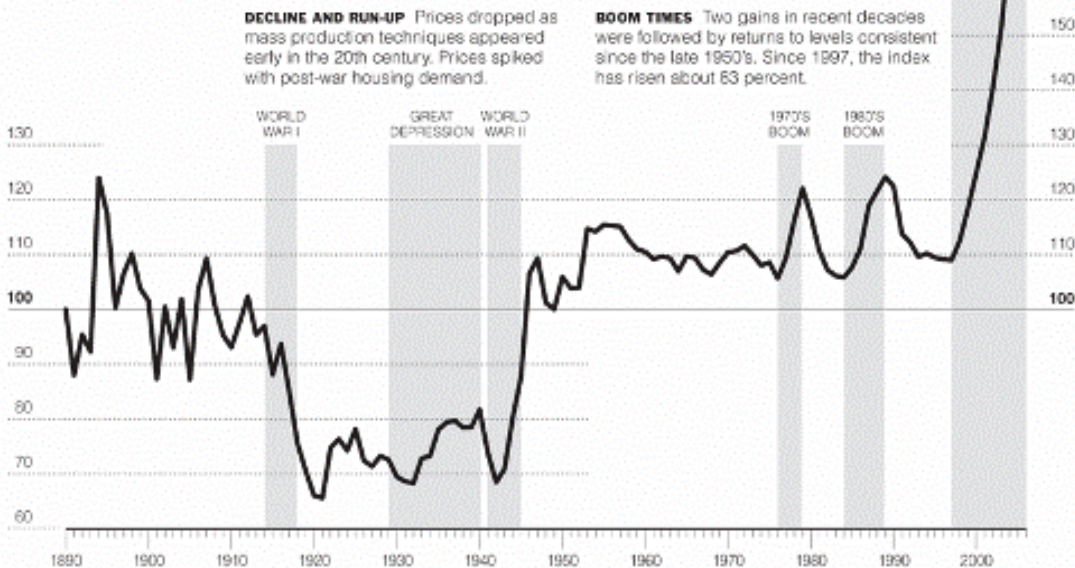
Source: National Association of Home Builders (Housing Facts, Figures and Trends for March 2006)

The housing bubble

A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

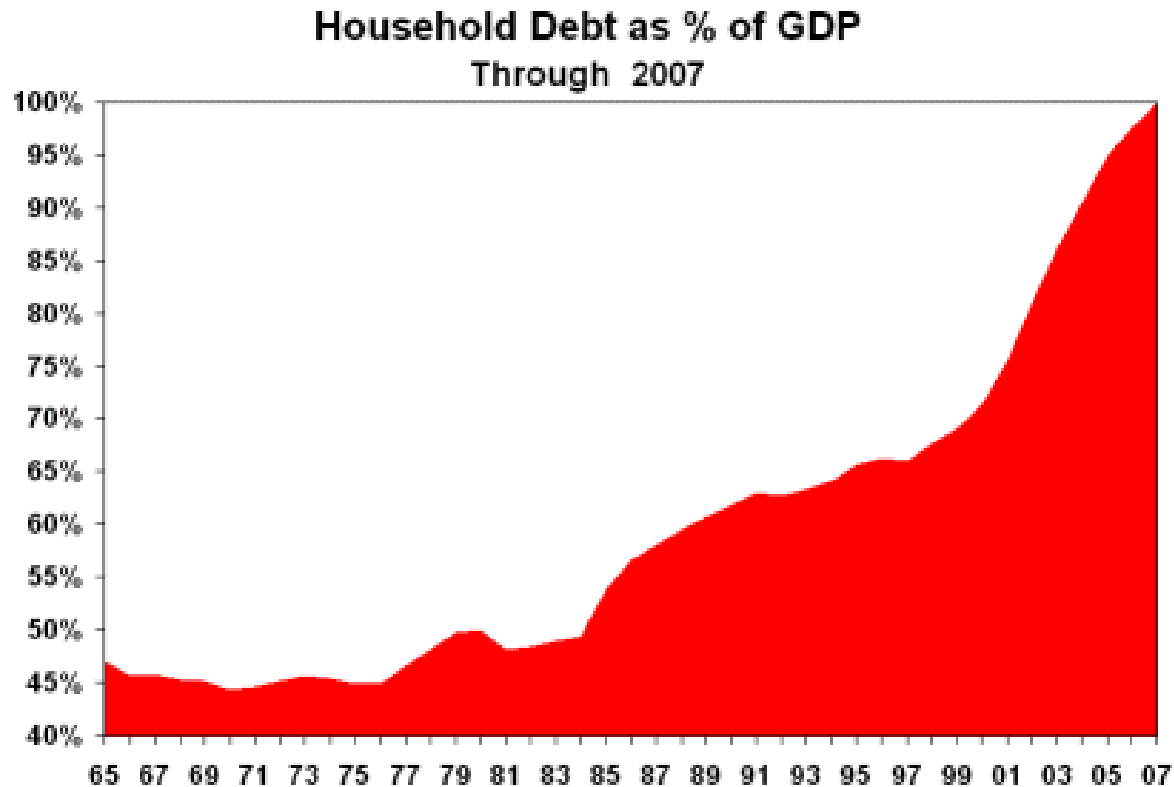
The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2008 (199 on the index scale, or 99 percent higher than 1890).



Source: "Irrational Exuberance," 2nd Edition, 2006, by Robert J. Shiller

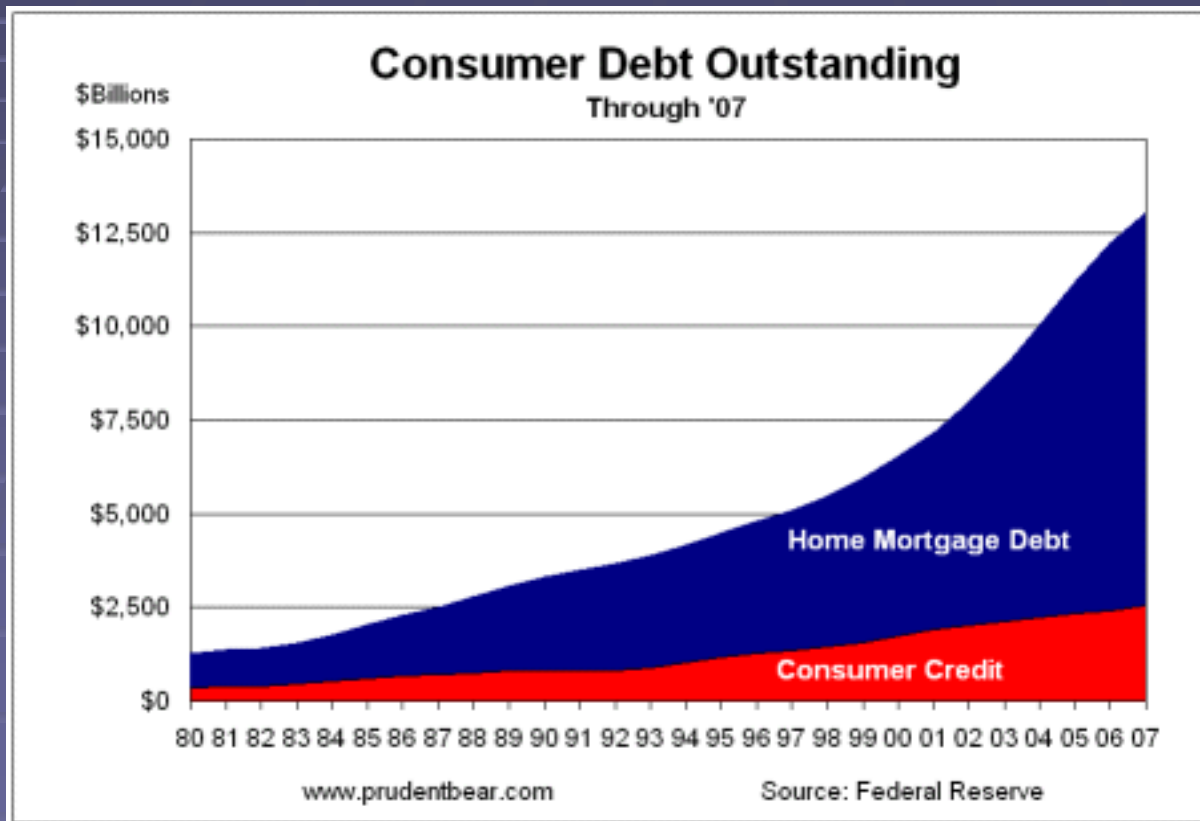
Bill Harsh/The New York Times

Consumer debt on the rise



Source: Federal Reserve Z-1, Bureau of Economic Analysis

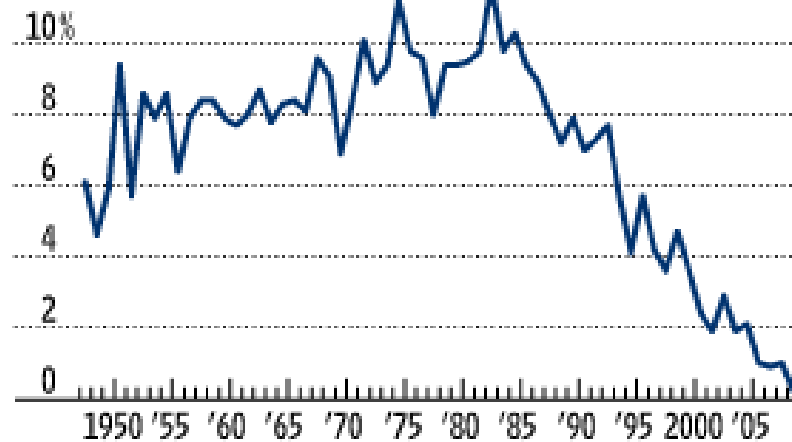
Both mortgage and consumer debt rose substantially in the last decade



People have saved less and less

Personal Savings Rate Hits New Low

Personal savings as a % of disposable incomes, nationwide, each first quarter since 1947.



Source: Federal Government, Bureau of Economic Analysis

Credit Cards

- 2000 159 million cardholders
- 2006 173 million cardholders (Census Bureau)
 - Half of Americans have two or more (Experian, February 2007)
 - The average amount of credit card debt is \$5,710 for those who have cards (TransUnion, December 2008))
- About 40% of cardholders carry a balance less than \$1,000 and 15% carry more than \$10,000 (myfico.com)
- Typical consumer has access to \$19,000 on all credit cards combine (myfico.com)
- 76% of undergraduates have credit card and the average balance is \$2,200 and, additionally, will amass almost \$20,000 debt (2004) (Nellie Mae 2004)
- One in four students surveyed by PIRG reported to have paid late fees and 15% have paid “over the limit” fees (U.S. PIRG)

Who gets credit

- Three Credit Bureaus
 - Experian, Equifax, TransUnion
- Credit history
 - Free annual credit history <https://www.annualcreditreport.com/cra/index.jsp>
- Credit score
 - FICO (Fair, Isaac Co.) score 300-850
 - Median 723
 - Payment history 35%
 - Amounts owed 30%
 - Length of credit history 15%
 - New credit 10%
 - Types of credit used 10%
 - Credit score used for
 - Loans
 - Rentals
 - Job applications
 - Car insurance premium