Dreaming of American thrift

Jay Hein

Question: In 10 years, what will today's college student regret more than their tattoos? Answer: debt.

With college costs soaring and a "buy now, pay later" mind-set rising, students are leaving college with massive debt loads. More than half carry four or more credit cards and one in 10 owes more than $40,000 in student loans.

For the first time in history, student debt ($830 billion) has surpassed Americans' debt on revolving credit ($827 billion). Meanwhile, the Federal Reserve reports that consumer debt in America has exceeded $2.5 trillion.

Young people are especially prone to this spiraling debt trap. In a recent Newsweek column, 30-something Eve Conant explains, "My generation doesn't know how to be thrifty." In contrast, her grandfather escaped Nazi Germany to buy a nice home in California with a $13,000 cash payment. Comfortably living the American Dream, he continued to store leftover bread crusts in his closet in case times got tough. "He couldn't shake old habits," Conant said, "Or were they old virtues?"

Newsweek's Conant confesses that she too has plastic bags in her closet, but they're filled with nice clothes that she's giving away because her wardrobe is too full. She is part of a generation that has become all too comfortable with debt and spending. Credit card debt tripled over the past couple of decades, and in 2005 Americans registered a negative savings rate for the first time since the Great Depression. That means we not only spent all of our after-tax income in a year, but we also had to dip into savings or increase borrowing to pay the bills.

The recession's silver lining is a return to positive national savings rates and signs of a frugal consumer taking shape. Such parsimony is reminiscent of Benjamin Franklin's concern about his fellow colonists' money skills. Among his admonitions in Poor Richard's Almanac, "Beware of little expenses, a small leak will sink a great ship."

An emphasis on savings has been a fixture in American society every since. The YMCA launched National Thrift Clubs in 1916 as part of a public education campaign to ready Americans for a wartime economy. The lessons took hold. The national savings rate reached 25 percent during World War II, thanks in part to war bonds.

Many pro-thrift institutions took rise in the early 20th century. Credit unions were invented to foster responsible lending and educators worked with local banks in 500 cities to establish more than 7,000 school-based savings banks. Piggy banks were ubiquitous in American homes. Today's children last saw one in "Toy Story 3."

Now we are inundated with anti-thrift tactics such as relentless credit card solicitations that promise teaser rates but deliver long-term, high-interest borrowing. Credit unions are being nudged out by payday lenders, which hold 15 million loans at annual interest rates averaging an unconscionable 300 percent APR.

Among the most anti-thrift institutions are state lotteries. Of the 20 percent of Americans who are frequent lottery players, 18-to-24-year-olds are the most represented and low-income households are the most affected. Those making less than $13,000 spend $645 per year on lottery tickets, or 9 percent of their income. Sadly, they are buying into the marketing messages that you can become rich the new-fashioned way: without earning it.

Yet, neither subprime mortgages nor easy credit is the main problem. Rather, it is a low level of economic literacy, especially among our youngest and poorest citizens. The only real solution is renewed personal responsibility. This process often begins when a teenager brings home his first paycheck and asks, "Who is FICA and why is he taking so much money out of my check?"

The best education occurs when discovering what Albert Einstein called the greatest invention in human history: compound interest. The same multiplier that can turn your modest and regular savings into retirement millions can cause bankruptcy for those who insist on paying the minimum amount on a maxed-out credit card. Americans paid $17 billion in debt fees in 2006 and one in seven is dealing with a debt collector.

Which brings us to the root of thrift — the verb "thrive." It's not about penny-pinching or living miserly. Rather, thrift trades instant gratification — and the long-term low-grade fever that comes with it — for a life where you are in control. It promotes the wisest use of time, money and possessions for a good life and for the good of others.

In other words, it's the stuff of the real American Dream.

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