

Buying alone: how Americans' unhappiness turned into the current economic crisis

Recent decades have seen Americans working longer hours at the same time as massive increases in the level of household debt in order to fuel consumption have taken place. Why did household consumption grow so rapidly, especially in the lead up to the Great Recession?

Stefano Bartolini, **Luigi Bonatti** and **Francesco Sarracino** argue that this rise in consumption can be explained in part by an erosion of environmental and social assets, and an associated fall in people's well-being and happiness. They write that people have tried to compensate for the decline of these 'free goods' by purchasing more and more consumer goods, and on services to protect against risks such as health insurance and private security.



The unsustainable debt accumulated by the U.S. households was at the root of the financial crisis which began in 2007. This debt was contracted to finance the consumption boom driving U.S. economic growth in the period that preceded the crisis. Such an increase in consumers' expenditures (especially in houses and other consumer durables) was not an isolated episode, but part of a trend of steady increase in the U.S. consumption rate.



The unanswered question concerning the crisis is why U.S. households, after having experienced a long period of rising consumption, were still eager to consume more by going into debt. Why did not they reduce their working time or devote more time to family and friends? Understanding the origins of the crisis requires an explanation of American extreme consumerism.



A popular explanation is growing inequality. The difficulty of keeping up with the Joneses in a context of increasing income and wealth inequality pushed people into debt. The process, fed both by legislators' decisions and regulators' lax attitudes, which led to the relaxation of lending standards was necessary to reconcile the need to keep consumption growing rapidly with the fact that the wages of a large share of the population were growing less than GDP.

A complementary explanation comes from the NEG (Negative Endogenous Growth) approach. Americans' consumption 'bulimia' is rooted in the decline of US free goods, i.e. the quality and quantity of social and environmental resources in the past few decades. In fact, the erosion of environmental and social assets caused by economic growth induces consumers and producers to search for substitutes in the marketplace. This process is self-feeding: an acceleration of economic growth may bring more detrimental effects on people's well-being than benefits. Hence, the NEG approach provides an explanation of the Easterlin paradox, i.e. the finding that people's well-being may not increase with growing average per-capita income, and is consistent with the evidence showing that in recent decades the happiness reported by Americans has been declining.



Credit: [Michael](#) (Flickr, [CC-BY-2.0](#))

Growing inequality has left median American hourly incomes flat for a generation while GDP continued to increase, and lower taxes for wealthier Americans have led to less social protection, public goods and infrastructures. Americans were able to purchase an increased volume of consumer goods by taking on excessive personal debt and working longer hours. But more work and more stuff have left them lonelier and less connected with each other.

Just as people's 'defensive' expenditures for protection from environmental deterioration has been rising, there has been an explosive increase in the U.S. on expenditures on activities of social control and dispute resolution, which may be considered to be a consequence of the steady decline in social trust that occurred in the last decades. This increase is consistent with the hypothesis that the erosion of social capital (trust, work ethics, and honesty) stimulates the rapid expansion of entire sectors of the economy, i.e. those sectors providing goods and services that individuals and organizations use to protect themselves against rising opportunistic and defiant behavior by others. Work supervisors and guards (police, corrections officials and security personnel) passed from 10.8 percent of the total labor force in 1966 to 17.9 percent in 2002. The amazing figure of 2 million people incarcerated in U.S. prisons says more than anything else on the subject. Many middle-class households have been seeking refuge from unsafe inner cities by moving to residential areas with restricted access, where normally public spaces are privatized, thus creating low-density sprawl that makes public transit too expensive and encourages automobile dependence, longer commutes and even less social connection. Rising households' expenditures for protection from risks connected to events like retirement, sickness, disability, death, loss of a job are the outcome of the weakening of collective safety nets in the name of personal assumption of risk. One could also argue that some of the rapid increase in U.S. health expenditures (the highest in the world) are a result of the negative externalities brought about by economic growth. This conclusion hinges on the evidence linking the higher levels of anxiety and stress reported by Americans to many diseases, and by noticing that stress has been often associated to the competitive pressure and time-crunch experienced by a rising number of Americans.

In other words, the impoverishment of human relationships and the erosion of the commons and social assets have been both effects and drivers of the pattern of growth that prevailed in the U.S. Consumption bubbles have been features of this growth model, which has revealed to be intrinsically unstable and unable to provide most people with the perception that their lives are getting better. This growth regime is no longer sustainable or desirable. Hence, it is time to consider policies that, instead of reinvigorating mass consumerism, seek to stimulate a gradual shift in lifestyles. Such policies should move away from market activities and toward the enjoyment of more free time, richer human relations, and better-quality social and environmental assets. Public policies could only partially influence the necessary shift in mass culture, values and preferences. However, public

policies can play a role in creating the conditions for such a shift. For example, it is possible to provide low cost access to high-quality social and environmental assets to households, thus limiting their need to resort to costly private consumption. Another field of immediate intervention is interrupting the ongoing trend of rising inequality.

This article is based on the paper, “[The Great Recession and the bulimia of US consumers: deep causes and possible ways out](#)”, in the Cambridge Journal of Economics.

Please read our comments policy before commenting.

Note: This article gives the views of the author, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: <http://bit.ly/1oPZdkH>

About the authors

Francesco Sarracino - STATEC

Francesco Sarracino is an economist at STATEC, the national institute of statistics of Luxembourg, and an associate member of the scientific network of the Laboratory for Comparative Social Research – Higher School of Economics, Russia. His work aims at identifying policies to make economic growth compatible with people’s well-being and, ultimately, to pursue a sustainable development. His research focuses on developed and developing countries and is based on within and cross-country empirical evidence.



Luigi Bonatti – University of Trento

Luigi Bonatti studied philosophy at the Scuola Normale Superiore of Pisa (Italy). His interest in the philosophy of social sciences led him to continue his studies at Columbia University (USA), where he got a Ph.D. in economics under the supervision of Edmund Phelps. He is currently professor of economics at the University of Trento (Italy). The works that Bonatti has published in recent years relate to growth theory and sustainable development, open macroeconomics and international economics, rationality in the formation of expectations and in public choices.



Stefano Bartolini – University of Siena

Stefano Bartolini is professor of economics at the University of Siena (Italy). His research focuses on the causes and possible solutions of the increasing poverty of well-being, social capital, time and natural environment in developed and developing countries. He has published extensively on these topics.



- CC BY-NC-ND 3.0 2014 LSE USAPP