fong AND PARTNERS INC

starting OVER Personal Financial Difficulties

September 2006 • Vol 8

# Consumerism: its Causes & its Consequences

## Introduction

*"You work in a job you hate, to buy stuff that you don't need, to impress people that you don't like."*

*- Unknown*

Insolvency practitioners are seeing an increase in problem debtors whose financial difficulties arise from poor spending habits, particularly compulsive spending and lack of financial discipline.

This article will address one of the key causes of financial difficulty today: consumerism, and will examine its causes and consequences. The trend of consumerism is particularly pronounced in the younger generation of consumers, and this article will focus on this particular demographic.

I am hopeful that readers shall find this article insightful and will cause them to re-examine their own spending habits in order to avoid (or avoid repeating) the pitfalls of this increasing phenomenon.

## Defining the Problem

There are several definitions for consumerism, but the one we're interested in as follows:

"A term used to describe the effects of equating personal happiness with purchasing material possessions and consumption.[1]"

Consumerism is often associated with a desire to purchase goods and services which:

- are often "wants" rather than "needs". An example is the decision of a consumer to purchase a television with the latest technology, even though he/she already has a television that is in perfect working condition; and/or
- are priced greatly in excess of their intrinsic (i.e., real or inherent) worth. The "premium" can often be attributed to the item being a "name brand" product and the prestige associated with a particular brand. Hence, a sweater sold in a Benetton store will have a substantially higher price tag than say, a sweater sold in a Wal-Mart, even though that sweater may have been produced by the same Chinese manufacturer with the same specifications.

Many will agree that there is nothing wrong with the purchase of a good or service that gives pleasure to the consumer **if he/she can afford it.** Hence, if someone can easily afford to purchase a $5,000 Prada handbag with cash, then by all means, do so.

However, the situation becomes problematic when **society at large** projects a need for, or an **entitlement** to, these same types of products or levels of consumption, not just those who can afford them. This problem has dire consequences for individuals and the society they live in, which will be examined later.

## What are the Causes?

There are 4 factors that drive consumerism in today's society: easy access to consumer credit, aggressive and intrusive advertising, lack of financial education, and a shift in personal values.

### Easy Access to Consumer Credit

Why is it so easy to get a credit card? Because credit card companies make a lot of money from interest revenue and credit card fees. For example, in the United States, pre-tax profits for credit card companies have grown 360 percent from 1990 to 2003, while fee revenues have grown 250 percent.[2] Therefore, with this type of profitability, it is in their interest to issue as many credit cards as they can.

### Advertising

Selling consumer products, be it a car, deodorant, perfume, or jeans, is an extremely competitive business. Consequently, we are constantly bombarded with advertisements wherever we go, or when doing whatever we do: watching television, surfing the internet, in the movie theatre, at the gas pump. According to a 1998 United Nations Human Development Report, the growth in global ad spending "now outpaces the growth of the world economy by one-third.[3]"

The reason for this siege in advertising is the firmly held belief in the marketing profession that the more advertising is out there, the more aggressively brands must market to stand out. One senior ad executive with a major global marketing firm had candidly stated that - "consumers are like roaches - you spray them and spray them and they get immune after a while.[4]"

So if consumers are like "roaches", then marketers will be constantly taking more creative, and intrusive, measures to advertise their products.

---

1 www.Wikipedia.org

2 FoxNews.com - "U.S. Consumer Credit Card Debt May Crash Economy", 31 December 2004.

3 Klein, Naomi - "No Logo", page 9

4 Ibid, page 9

An example is a trend that started in the early to mid 1990s: advertising in public schools, or "In-School Branding". Deep cuts in public education throughout North America led school boards to search for alternative sources of revenue to finance capital expenditures, such as computer equipment. Thus, corporate sponsorships and partnerships stepped in to assist with financing, but with a catch: school boards were required to open their schools to ads and products from their corporate sponsors.[5]

Thus, in today's public schools, one can expect to see soft drink machines selling various brands of soda pop, or fast-food outlets in school cafeterias. "Get them while they're young", the marketers reason, "and they'll be branded for life". Similarly, on university campuses, credit card companies aggressively market their credit cards. Today, it isn't unusual to see recent university graduates maxed out on several credit cards.

The long-term consequence of this level of advertising, particularly at the younger generation, is the creation of a new generation of consumers with even worse spending habits than their predecessors, as they have "programmed" from a young age to compulsively purchase the newest soft drink, the latest cologne, or the newest jeans with access to easy credit.

Therefore, it is not surprising that in recent years, bankruptcy trustees and credit counsellors have seen their clients shifting towards a younger demographic. Indeed, bankruptcies for people under the age of 24 have more than doubled during the last 20 years.[6]

### Lack of education

Generally speaking, money management is not taught in schools. Teaching basic financial literacy (e.g., keeping a spending budget, calculating the true cost of debt) is generally not a priority in the public school system or universities: the mantra from teachers and parents was (and still is) to enter a good university, get good grades, get a good job and everything else will take care of itself.

The statistics support this assertion. The Jump$tart Coalition, a charity devoted to monetary literacy, recently did a survey to find out what teenagers across the United States knew about the financial and business worlds. The study asked high-school seniors basic questions, such as the difference between investing your money in stocks and a savings account, or whether every person has the right to see their own credit report.

The average score was 52 per cent, says Laura Levine, the charity's executive director. "Kids today just don't know enough about basic personal finance to do manage their money wisely."[7]

### Shift in Personal values

The social foundation of North American society was built on three traditional Judeo-Christian values: limited resources, delayed gratification, and a strong work ethic. We shall examine how the availability of consumer credit and aggressive marketing has turned these values on their head.

#### 1. Limited Resources

Before consumer credit became easily available, a firmly established belief was that "you cannot have everything". In the past, people could only purchase what they could afford to pay and were forced to prioritize their purchases based on needs and wants. The familiar refrain was "money doesn't grow on trees".

Although money still doesn't grow on trees, it seems that consumer credit does. Today, consumer credit enables consumers to purchase anything on impulse, regardless of whether he or she has the money to pay off the balance. Easy access to credit breaks down the psychological and financial barrier that prevents impulse buying - "if you can't pay for it, don't buy it". Why be forced to make a choice between purchasing a new car or a new boat when you can have both?

#### 2. Delayed Gratification

Delayed gratification is the willingness and ability to sacrifice desires in order to achieve a future benefit. This concept - which runs contrary to almost everything society teaches us about immediate gratification - can mean the difference between long-term financial success and failure.[8]

Before consumer credit became widely available, it was easy to sacrifice desires - if one wanted to make a purchase, they had to save for it. The availability of consumer credit has eliminated this barrier. In addition, mass advertising has blurred the distinction between the ability to pay for a purchase and the ability to finance a purchase.

We see the advertisements in the media: "no money down and no interest until 200x!", "easy affordable payments!", "buy now, pay later!", "0% financing!"

[5] Ibid, pages 88-89
[6] The Globe & Mail - "The Young and the Rentless" 17 December 2005 issue
[7] Ibid
[8] FamilyLife.com - "Teaching Your Children to Handle Money"

Simply put, the purchase of a consumer good with debt doesn't make any financial sense - one pays interest to acquire something that will rapidly depreciate, be it a computer, a vehicle, a boat, or a dining room set. Therefore, we see an increase in the number of consumers with "junk debt" - debt used to purchase trinkets and doodads that have little or no lasting value.

### 3. A Strong Work Ethic

Within the context of financial management, this concept can be expressed as follows: You can't get something for nothing. Everything costs, and there is always a trade-off between work and rewards.[9]

In the past, people had to work and earn money before they could purchase anything - they could see that purchasing power was the outcome of hard work. Such experiences reinforced the relationship between effort and reward, and motivated people to develop a strong work ethic.[10]

Today, it is unnecessary to work in order to experience rewards - the only effort required is to complete a credit application and the ability to make the minimum payments.

This attitude appears to be especially pronounced among teenagers and those in their early 20s, i.e., the "echo boom" or "Generation Y" demographic born from 1977 to 1997. As stated previously, the statistics support this assertion: bankruptcies for people under the age of 24 have more than doubled during the last 20 years.

As the offspring of the baby boom generation, the most affluent generation in history, the echo generation have generally grown accustomed to a high standard of living and experienced affluence at a young age. Some social commentators have branded this generation, fairly or unfairly, as overindulged and spoiled by their parents.[11] Well-meaning parents encourage unrealistic expectations by encouraging their children to follow their dreams, paying for their school tuition and living expenses, without teaching them the practical matters of how to find a job so they can be financially self-sufficient.

Consequently, the concept of a "day's work for a day's pay" is lost among many people in this demographic. And because they have unprecedented access to consumer credit, they indulge themselves in consumerism, with the sunny optimism, instilled to them by their parents that everything will turn out fine at the end of the day if they follow the refraining mantra of: get into a good university, get good grades, find a good job.

## What are the Consequences?

Consumerism has social and economic consequences, both positive and negative:

### The Individual

For the individual consumer, consumerism is contributing to the rising tide of consumer debt. As a consequence, more and more people are burdened with crushing personal debts, making it difficult for them to function as useful and productive member of society. Here are some disturbing statistics:

- Collectively, Canadian consumers now owe $752.1 billion, or an average of about $23,000 per person. According to the Bank of Canada, that's up 36 per cent in the past 10 years, when adjusted for inflation.
- Over the same period, personal disposable income, or take-home pay, has risen 15% .[12]

In other words, Canadians have been piling on debt more than twice as fast as their income has grown. Is it any wonder that more and more Canadians are living on the edge?

### The Economy

On the other hand, economists argue that, within limits, consumerism is a positive force: because consumers make up two-thirds of the economy, they must keep spending to keep the economy healthy to create jobs for employees and wealth for investors. This creates a proverbial double-edged sword - we know overspending is bad for us individually, but if everybody stopped spending, unemployment would significantly increase and our financial investments would suffer.

However, there may be a day when consumers en masse will have reached the limits of their borrowing capacity;

[9] Ibid

[10] Ibid

[11] Businessweek - "Welcome to the Gen Y Workplace", 4 May 2005 issue

[12] Macleans Magazine - "Hip Deep in Hock", 6 December 2004 issue

they max out on their credit cards or lines of credit. If and when that happens, fewer people will have the a bility to make purchases, which would have a detrimental effect on the economy.

**The Environment**

The extraction of raw materials and energy consumption necessary for the production of goods and services has detrimental effects on the environment. For example:

- China, which is supplying a large portion of consumer goods to the West and is itself rapidly becoming a consumer society, is also becoming one of the world's worst polluters:
  - Because most of China's electricity comes from coal-generated power plants lacking adequate emission controls, acid rain falls on one-third of the country.
  - Six of the world's 10 most-polluted cities are in China, according to the World Bank, which estimates annual environmental damage at $54 billion US. Landfills are filled with discarded products.[13]
- In the United States, approximately 6.6 tones of greenhouse gases are emitted per person every year, and emissions per person have increased about 3.4% between 1990 and 1997. About 82% of these emissions are from burning fossil fuels to generate electricity and power vehicles. The U.S. emits more greenhouse gases per person than any other country, followed by Australia, Canada, and New Zealand.[14]

  Greenhouse gases contribute to global warming, which in raises the sea level, and changes local climate conditions. For example, category 4 and 5 hurricanes have increased by 80 percent worldwide during the past 35 years, according to a study in the 16 September 2005 issue of Science.

## Conclusion

As personal insolvency practitioners, it is our mandate to provide for the financial rehabilitation of debtors. A debtor's financial rehabilitation starts with the recognition that he or she has a problem, and it is the practitioner's responsibility to articulate and explain the problem. It is my hope that this article has provided the reader with sufficient information to do the latter.

Victor Fong, CMA, CIRP is a trustee in bankruptcy with the firm of Fong and Partners Inc. If you have any questions about this article, please contact Victor directly at 416.260.3264 or by email at victor@fongpartners.com.

**Victor Fong, CMA, CIRP**
Trustee in Bankruptcy
**victor@fongpartners.com**

***Starting Over***
***Personal Financial Difficulties*** *is an overview rather than a complete analysis. Before applying any of these suggestions, consult your Fong and Partners Inc. advisor.*

**Fong and Partners Inc.**
Trustee in Bankruptcy
Scarborough • Toronto • Brampton
T 416.260.3264 F 416.323.5248
**www.startingovertoronto.com**

13 Businessweek - "A Big, Dirty Growth Engine", 22 August 2005 issue
14 United States Environmental Protection Agency