The Overspent American: Why We Want What We Don’t Need

By Juliet B. Schor

An Excerpt from the Introduction

In 1996 a best-selling book entitled *The Millionaire Next Door* caused a minor sensation. In contrast to the popular perception of millionaire lifestyles, this book reveals that most millionaires live frugal lives-buying used cars, purchasing their suits at JC Penney, and shopping for bargains. … Millions of other Americans, on the other hand, have a different relationship with spending. What they acquire and own is tightly bound to their personal identity. Driving a certain type of car, wearing particular designer labels, living in a certain kind of home, and ordering the right bottle of wine create and support a particular image of themselves to present to the world.

This is not to say that most Americans make consumer purchases solely to fool others about who they really are. It is not to say that we are a nation of crass status-seekers. Or that people who purchase more than they need are simply demonstrating a base materialism, in the sense of valuing material possessions above all else. But it is to say that, unlike the millionaires next door, who are not driven to use their wealth to create an attractive image of themselves, many of us are continually comparing our own lifestyle and possessions to those of a select group of people we respect and want to be like, people whose sense of what's important in life seems close to our own….

For reasons that will become clear, the comparisons we make are no longer restricted to those in our own general earnings category, or even to those one rung above us on the ladder. Today a person is more likely to be making comparisons with, or choose as a "reference group," people whose incomes are three, four, or five times his or her own. The result is that millions of us have become participants in a national culture of upscale spending. I call it the new consumerism.

Part of what's new is that lifestyle aspirations are now informed by different points of reference. For many of us, the neighborhood has been replaced by a community of co-workers, people we work alongside and colleagues in our own and related professions. And while our real life friends still matter, they have been joined by our media "friends." … We watch the way television families live, we read about the lifestyles of celebrities and other public figures we admire, and we consciously and unconsciously assimilate this information. ….

As new reference groups form, they are less likely to comprise people who all earn approximately the same amount of money. And therein lies the problem. When a person who earns $75,000 a year compares herself to someone earning $90,000, the comparison is sustainable. It creates some tension, even a striving to do a bit better, to be more successful in a career. But when a reference group includes people who pull down six or even seven-figure incomes, that's trouble. …

Advertising and the media have played an important part in stretching out reference groups vertically. When twenty-somethings can't afford much more than a utilitarian studio but think they should have a New York apartment to match the ones they see on *Friends,* they are setting unattainable consumption goals for themselves, with dissatisfaction as a predictable result. When the children of affluent suburban and impoverished inner-city households both want the same *Tommy Hilfiger* logo emblazoned on their chests and the top-of-the-line Swoosh on their feet, it's a potential disaster. …

Millions of us face less stark but problematic comparisons every day. People in one-earner families find themselves trying to live the' lifestyle of their two-paycheck friends. Parents of modest means struggle to pay for the private schooling that others in their reference group have established as the right thing to do for their children. The accelerating pace of product innovation creates additional problems. To gain broader distribution for the plethora of new products, manufacturers have gone to lifestyle marketing, targeting their pitches of upscale items at rich and non-rich alike….

The new consumerism is also built on a relentless ratcheting up of standards. What we want grows into what we *need,* at a sometimes-dizzying rate. … Oddly, it doesn't seem as if we're spending wastefully, or even lavishly. Rather, many of us feel we're just making it, barely able to stay even. But what's remarkable is that this feeling is not restricted to families of limited income. It's a generalized feeling; one that exists at all levels. Twenty-seven percent of all households making more than $100,000 a year say they cannot afford to buy everything they really need. Nearly 20 % say they "spend nearly all their income on the basic necessities of life." In the $50,000 – 100,000 ranges, 39 % and one-third feel this way, respectively. Overall, half the population of the richest country in the world say they cannot afford everything they really need. And it's not just the poorer half. …

Although the ad writers urged people to be the first on the block to own a product, the greater fear in most consumers' minds during this period was that if they didn't get cracking, they might be the last to get on board. … Consumer satisfaction, and dissatisfaction, depend less on what a person has in an absolute sense than on socially formed aspirations and expectations. Indeed, the very term "standard of living" suggests the point: the standard is a social norm. …

Daily exposure to an economically diverse set of people is one reason Americans began engaging in more upward comparison. A shift in advertising patterns is another. Traditionally advertisers had targeted their market by earnings, using one medium or another depending on the income group they were trying to reach. They still do this. But now the huge audiences delivered by television make it the best medium for reaching just about *every* financial group. …

Throughout the 1980s and 1990s, most middle-class Americans were acquiring at a greater rate than any previous generation of the middle class. And their buying was more upscale. … The size of houses has doubled in less than fifty years, there are more second homes, automobiles have become increasingly option-packed, middle-income Americans are doing more pleasure and vacation travel, and expenditures on recreation have more than doubled since 1980s. Over time new items have entered the middle-class lifestyle. -- a personal computer, education for the children at a private college, maybe even a private school, 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. At a minimum, the average person's spending increased 30 % between 1979 and 1995.

Definitions of the "good life" and even of "the necessities of life" continued to expand, even as people worried about how they could pay for them. What was going on? The economic trend was a diverging income distribution. The sociological trend was the upward shift in consumer aspirations and the vertical stretching out of reference groups. They collided to produce a period of consumer anxiety, frustration, and dissatisfaction.

The growth of inequality dates back to the 1970s, the beginning of a phenomenal rise in the earnings of the rich and very rich. Between 1979 and 1989, the top 1 % of households increased their incomes from an average of about $280,00 a year to $525,000 … To compensate for the growing chasm between their lifestyles and those of the rich and famous, these upper-middles also began conspicuously acquiring the luxury symbols of the 1980s-- buying the high-prestige watches and pens, looking for "puro lino" labels, and leasing luxury vehicles they often couldn't afford. "Feeling poor on $100,000 a year" articles began appearing in the press.

That might have been that. But the upper-middle group is special. The standard of living of this upper-middle is now widely watched and emulated. It is the group that defines material success, luxury, and comfort for nearly every category below it. … The average American is now more likely to compare his or her income to the six-figure benchmark in the office down the corridor or displayed in evening prime time. …And these aspirations play themselves out in the retail sector: the furnishings, attire, and lifestyle accessories of the upper 10 % are the prototypes for the less expensive versions found at Macy's, Sears, Wal-Mart, and K-Mart. …

In 1986 the Roper polling organization asked Americans how much income they would need to fulfill all their dreams. The answer was $50,000. By 1994 the "dreams- fulfilling" level of income had doubled, from $50,000 to $102,000. Upscaling had definitely taken hold. Of course, $102,000 is not everyone's dream. In a consumption system premised on differences, dreams will also differ. And predictably, the higher one's income, the more one must have to feel fulfilled. Those making more than $50,000 said they would need $200,000 for total fulfillment, while lower-income people calculated that they would need only about $88,000 a year….

Throughout the nineties, the moving target of the top 20 % has continued to move. A mere car now carries a slightly downscale image, as people shift to sport utility vehicles. The trend includes urban spas, personal trainers, limousine rides, fancy computer equipment, "professional-quality" everything-- from cookware to sports equipment and, perhaps most strikingly of all, the "trophy" house, or McMansion. These showy dwellings, which range from four thousand to twenty-five thousand square feet, are proliferating around the country. In older suburbs, an existing house will be razed to make way for a larger one. Outside Boston, in affluent Wellesley, the median size of a new home rose from twenty-nine hundred to thirty- five hundred square feet between 1986 and 1996, and the number of *really* big houses (more than four thousand square feet) quadrupled. …

It seems that "needs" have been upscaled disproportionately among those with more money. In my survey at "Telecom," among those who reported dissatisfaction with their incomes, the more they made, the greater the additional amount needed to reach satisfaction. In the $75,000+ household income category, nearly two-thirds said they'd need an increase of 50 to 100 % in their annual income to reach satisfaction, while fewer than 20 % of those making $30,000 or less would need that much. … Thus, the competitive upscale consumption that began in the 1980s, with the attendant expansion of the American dream, wasn't invented by Nancy Reagan and it wasn't a cultural accident. It was created by the escalating lifestyles of the most affluent and the need that many others felt to meet that standard, irrespective of their financial ability to maintain such a lifestyle …. American consumers are often not conscious of being motivated by social status and are far more likely to attribute such motives to others than to themselves. We live with high levels of psychological denial about the connection between our buying habits and the social statements they make. …

Not surprisingly, as upscale competitive consumption intensified, family finances deteriorated. One indicator is the rise of consumer borrowing and credit card spending. Through the 1990s, households have been taking on debt at record levels. And the largest increases have been not among low-income households, but among those earning $50,000 to $100,000 a year. (Sixty-three percent of these households are now in credit card debt.) Debt service as a percentage of disposable income now stands at 18 %, even higher than during the early 1990s recession. Another indicator is the rise in work time: average hours of work have risen about 10 % in the last twenty-five years. … The national savings rate has also plummeted. The average American household is currently saving only 3-5 % of its disposable income, about half the rate of a decade and a half ago, before spending pressures began to intensify. …

Thus, the new consumerism has led to a kind of mass "over- spending' within the middle class. By this I mean that large numbers of Americans spend more than they say they would like to, and more than they have. They spend more than they realize they are spending, and more than is fiscally prudent. ... There is also a boomerang effect on the public purse and collective consumption. As the pressures on private spending have escalated, support for public goods, and for paying taxes, has eroded. Education, social services, public safety, recreation, and culture are being squeezed. … These personal financial pressures have also reduced many Americans' willingness to support transfer programs to the poor and near poor. Coupled with dramatic declines in the earning power of these latter groups, the result has been a substantial increase in poverty, the deterioration of poor neighborhoods, and alarming levels of crime and drug use. People with money try to spend their way around these problems. But that is no solution for these social ills.

One problem with the national discourse is its focus on market exchanges, not quality of life, or social health. Gross domestic product is the god to which we pray. But GDP is an increasingly poor measure of well-being: it fails to factor in pollution, parental time with children, the strength of the nation's social fabric, or the chance of being mugged while walking down the street. …

Of course, not everyone is going along with the new consumerism, or not forever. Downshifters are opting out of excessive consumerism, choosing to have more leisure and balance in their schedules, a slower pace of life, more time with their kids, more meaningful work, and daily lives that line up squarely with their deepest values. … Most important, downshifting brings one's lifestyle into correspondence with one's values. And downshifting is happening because millions of Americans are recognizing that in fact their lives are no longer in synch with their values, either because they have no time for what they care about most (their children, their families, their communities, or their personal development), because they can't believe in the work they are doing, or because the money and the consumption-identity link has started to seem meaningless. …

There is accumulating evidence that Americans are growing uneasy with the new consumerism. Surveys show that many believe materialism is ruining the country, perverting our values, and damaging our children. We yearn for what we see as a simpler time, when people cared less about money and more about each other. After drugs and crime, people see materialism as the most serious problem affecting American families. …

We experience consumer society as something natural. But it's not. As a growing number of historians have shown, the culture we live in today was *created.* Consumer capitalism did not triumph without opposition, but triumph it did. One measure is that by the 1990s college students reportedly relate far more to commercials and advertising culture than they do to history, literature, or probably anything else. As James Twitchell of the *University of Florida* argues, "adcult" now *is* our culture. I do not raise this point to suggest that change is not possible. Certainly it is. But the first step toward transforming America's consumer culture is to understand it better.