HEDONISM, ASCETICISM, AND THE AMERICAN DREAM

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New concern with shortages and inflation opens up old questions of beliefs and values. Have self-centered values such as hedonism and its counterpart asceticism risen to ascendancy? And do they enter into the consumerism movement? The uptrend in productivity on which material values were based will not continue. Adjustments in personal beliefs and values and social and economic institutions will prove difficult.

"The country no longer trusts the genuine moralists. . . and no longer trusts its own instincts. While we weren't looking, Middle America traded its Puritanism for consumerism. . . ."

-- Peter Schrag

"The period of rapid population and industrial growth. . . during the last few centuries. . . is . . . one of the most abnormal phases of human history."

-- M. King Hubbert

Without overdramatizing it can be said that at this point in the national life of the United States some ageless questions are being re-asked. Among them, in an era of unprecedented concern with shortages and inflation, is the value system we profess. It is usually posed as a choice between material and spiritual values. More poetic language is hedonism versus asceticism.

Hedonism and asceticism are self-centered. To shower oneself with physical pleasures, or consciously to reject them, is the behavior of the introvert. The fact that the ganglia of the nervous system end

with the dermis has helped accord a credibility to self-centeredness that is not warranted. To be sure, a starving man fights for food and a drowning one for air. But under more usual circumstances the human being displays multiple needs and many are social, other-directed. In fact, it may be that hedonism or its counterpart, asceticism, arises primarily as a defensive reaction to social inadequacy or disappointment.

For explorations of this kind an always-promising source is the writings of the late John Brewster. Brewster sets forth as one of the truly basic attributes of the human being his "striving for significance." Wrote Brewster, /1, p. 9/

> Men the world over strive for an ever finer image of themselves in the eyes of others, whether actual or ideal. But what is the nature of this good which energizes men and nations?
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> It is the most spiritual of all treasures. You can get no photograph of it, neither can you weigh it, nor store it in barns or vaults; it has no abode in earth or stone -- yet we seek it above all else, both individually and collectively. And no evil is so terrifying as the anxiety over being so devoid of meritorious qualities as to be undeserving of favorable valuation by anyone, including oneself.

To gain significance a person must meet one or more of the tests that society establishes. These are the set of beliefs, in Brewster's language, that define merit. Brewster's handling of this subject may be worth brief recounting. It begins with a sense of destiny, itself an interesting bit of psychology. To believe that the Power of the Universe is on our side and will lead us aright is a mighty force in human motivation. Brewster capped his argument by citing the cases of Eichman and Hitler, who to their last breaths affirmed that they did right and history would judge them favorably. /1, p. 9/

Brewster posed his merit-defining beliefs in terms of the American Dream. He also assumed a one-century continuity in our belief system. "Twentieth century heritage of nineteenth century belief systems and values," was his caption. /1, p. 14/ We could wonder whether he overestimated length of tenure by a fourth.

Brewster's summary language reads, "In the belief systems of the 19th century America, the brightest star was a magnificent sense of destiny, commonly called the American Dream." /1, p. 14/ To this there were three "undergirding belief systems. . . the democratic ethic, the work ethic, and the enterprise ethic." /1, p. 15/ Brewster's discourse on the democratic ethic has become a classic and is worth repeating: /1, p. 16/

> This system centers in two beliefs, (a) all men are of equal dignity and worth, and (b) none, however wise or good, is good or wise enough to have arbitrary power over any other. These belief demands include a guide to freely

determined collective behavior. This guide is the conviction that Nature and Nature's God invests each man with an equal right or power to be a participant in deciding on what rules all must observe for the sake of their mutual well-being. . . .

For the work ethic the "key component is the conviction that striving for excellence in all employments is the proper way of earning one's own highest respect and also the respect and esteem of others." /1, p. 19/ The enterprise belief system embraced both an exaltation of capital accumulation and a rejection of governmental limits to the "entrepreneurial freedom of proprietors to run their businesses as they choose." /1, p. 27/

Such is Brewster's interpretation of the beliefs and values by which Americans have measured their own and others' performance. It is notable that they are of a different fabric than those "isms" of conscious self-indulgence or self-denial, hedonism and asceticism. It surely has been a part of the American Dream to make it possible for men to avoid the privations that throughout history have ground most of humanity into soul-shrinking poverty. But this is a far cry from glorifying material self-gratification or its rejection. The distinction is crucial.

The 1975 Scene

More practiced observers may assess how much we still adhere to the 19th century beliefs Brewster described. There is no dearth of pundits. Literary magazines are packed with characterizations of the contemporary ethos. Few pattern after Brewster.

The opening quotation from Peter Schrag paraphrases a prevailing theme. It uses terminology relevant for this conference, for Schrag puts it that we have swapped Puritanism for consumerism.

To what extent does consumerism reflect self-centeredness in human behavior? Probably considerably. To switch idioms, is the consumerism movement of our day oriented principally to privately consumed goods or to social goods? It does not seem to have given first attention to schools or public health. Even its environmental concerns have a self-interest taint.

For all its nebulousness and irrespective of whether its motives are generous or its actions useful, in large measure consumerism appears to serve a hedonistic society. If this be true, Schrag is justified in calling consumerism a replacement for Puritanism.

And if this be true, it is proper to re-ask the ageless questions. Do we build a strong nation on material indulgence? What gods do we worship?

Nevertheless, it is time to climb the solid if slippery rock of economics. Even though there be philosophical or even religious precepts

upon which to choose non-material values, economic forces will act to bring the issue into focus faster than any religious or philosophical teachers can do.

In a sententious word, many scholars now warn that the age of affluence is past, for ourselves and for the Western world. The logic of the case is capsuled in the opening quotation from Hubbert. The last several centuries have been a truly exceptional period in the world's history. Geographical and technological explorations combined to generate a physical productivity of incredible scale. We have occupied all the land and destroyed some. We have opened up the most available mines and have emptied many. We have pumped a few U.S. oil fields dry. Although Middle Eastern countries still have scarcely-tapped pools they have learned the economics of oligopoly.

And even though material affluence need not convert mankind to philosophies of self-indulgence, when worldly goods are plentiful the conversion comes easier. Furthermore, if the American Dream does not materialize, those philosophies beckon temptingly.

Three summary points follow.

First, not even the most alarmist economists foresee sudden privation. Our nation remains resource-wealthy by any standards extant prior to, let us say, World War II. These are not doomsday forebodings.

Second, the pitfall lies in the difficulty in reversing a course -- a course in both personal philosophy and economic policy. It lies in changing our individual thought patterns and value systems and the accompanying social and economic institutions. As one author expressed it, we now face a "revolution of declining expectations."

The third and final point relates to the nature of our economy. Our whole economic system was conceived in terms of expansion and growth. Economists say that economics is the science of scarcity. The assertion is not literally incorrect but is highly misleading. Our economic system, and social system, too, is set up to deal with scarcity not by apportioning it with some equity but by relieving it. This dedication and this confidence also are a part of the American Dream. If Brewster addressed it more by implication than directly, another distinguished memorial to the goals of our nation was forthright. In the statement, Goals for Americans, drafted by an Eisenhower commission, economic growth was named as a basic goal, as was technological change. Goals for living conditions, health, and welfare were expressed in terms emphasizing physical facilities and services. /2/.

In our national history we have striven for expanding physical productivity by applying ever more ingenious technology to develop resources and convert them to physical goods. That we exploited depletable resources at accelerating pace is well known. What is under-appreciated is that during this phase in our national life the resources

themselves were almost costless. The only charge paid by consumers was the cost of extraction. We even went farther, by subsidizing some of that cost. Threats of monopoly pricing of resources were almost disregarded, for how can such a price be attached when new land or new mineral depositis await the explorer or developer? And if some cabal sought to create artificial scarcity, in 1890 we passed a law saying that would be illegal.

To repeat for emphasis, our economy, like our personal philosophies, came into being during an era, if not of realized abundance then of pervasive confidence that abundance would be achieved. In that setting of actual or promised plenty we recited the words of the American Dream. In that setting the Dream could materialize more readily, for personal aspiration and individual freedom are accommodated more easily when there is relative material abundance and especially when it is shared in something close to egalitarian ratio. But in a paradoxical contradiction, in that setting it is also tempting to drift into renunciation, turning to self-centered material values.

That era of actual or imminent abundance is ended. We may try desperately to restore the previous tempo of growth, in one last orgy of depriving our descendants of precious depletable resources. But even that will not succeed fully. We have got to make a transition. Because we will not be resource-poor the problem is not of early privation. The problem is of reconverting our personal values. The problem is also of readjusting our social and economic institutions.

If depletable resources were once almost a free good they are not so now but capable of taking on monopoly value of anti-social proportion. And if it was not too hard to share the opportunities of an expanding economy with some equity, it will prove much more difficult to bear the limitations of a less thriving economic system with acceptable fairness and equity for all our citizens. Donald Michael says we should think in terms of "shared deprivation." He observes that disasters normally produce generosity and helpfulness and sharing, but then warns, "If we don't share this transition. . . there will be bitterness, theft, greed and possessiveness." /3/.

The beliefs and values upon which individual man strives for significance. The American Dream. Perhaps the 19th century American Dream was not entirely generous, and perhaps it does not fit the final quarter of the 20th. But we have not found an acceptable replacement. Not hedonism nor its polar opposite of asceticism, neither Puritanism nor consumerism, is that replacement. The 21st century will be upon us soon, but we have not begun to reformulate the beliefs and values to bequeath to it. It is time we did so.

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ABSTRACT

CAN MILLIONS OF AMERICANS CHANGE THEIR LIFE STYLES?

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Summary of Speech

Millions of Americans change their life styles somewhat every year, and most Americans change their life styles dramatically over the course of their lives. Therefore it is by no means unfeasible or unusual to expect further changes in the future in response to economic and social pressures. Still open to question is (1) whether life styles which minimize environmental pollution and energy consumption can be adopted with minimal political upheaval and interference with everyday life, and (2) how quickly this can be done.

Life styles cannot change too quickly or easily for several reasons: (1) the average family finds itself locked into basic obligations -- to get to work, to maintain a house of a certain size in a certain location with only so much insulation; (2) so much capital is already invested in inefficient systems -- you cannot throw away your furnace and get a new one, insulate your house, cut down on your window space, and buy a more efficient and smaller car all at once -- nor can the whole society dispense with billions of dollars of capital already invested in a suburban life style, built around the automobile; (3) consumers have trouble planning for "the long run."

What can be done by policy makers? Trying to turn the clock back will not work -- you cannot pretend that our cities are dense as Manhattan 50 years ago and that rapid transit will take over the job which cars now perform. Nor can you pretend that the government of the United States has the power to order the people to alter their life styles. Even where it does have the power, judgment is often lacking. On the other hand, you cannot assume that the market alone will achieve quick, politically desirable results, however effective it is in the long run. The dilemma is that political power works fast but poorly while the market works well but slowly.

Any successful energy program depends on certain principles: (1) public trust is essential -- this means trust in honesty of one's leadership (which prevented Nixon from succeeding with an energy policy) and faith in their brains (which has so far kept President Ford from winning a consensus for his energy policy); (2) heavy investments in expensive new rapid transit and other obsolete systems must be avoided -- current public facilities must be used efficiently rather than discarded; (3) keep in mind the fact that consumers are locked into their current consumption patterns in the short run -- energy taxes turn out to be punitive in the short run, however good they are in the long run; (4) rewards work better than punishment, especially when the recipient can vote you out of office; (5) the environmentalist-business conflict must be avoided -- conflict politics of this sort cannot solve these problems and will probably tie Washington into knots for another several years, with the environmentalists ultimately losing the battle and the country losing the war.

Proposals

My main proposal is an old medicine in larger dosage. I favor substantial tax credits or reductions or even subsidies for capital investment in insulation, more efficient home air conditioners and heaters, and small cars. The entire tax cut should be put into such a policy. The greatest incentives should be put into small capital investments which have major significance in modifying an existing system, e.g. purchasing an electric pilot light for a gas furnace. The emphasis should be on some immediate rebate or price reduction rather than making people wait until income tax time.

The emphasis on small cars is deliberate. Detroit is coming to favor them (they have no choice). Small cars pollute less even without adding anti-smog devices, and they reduce energy consumption at the same time. Thus, a small car tax benefit of some sort would have something in it for almost all parties in the current national controversies. I would add to this tax benefits yearly for operation of small cars.

The same principle of encouraging new capital investment in existing technology would apply to mass transit, too. There the emphasis should be on buses rather than any sort of trains or subways, since buses use streets already there and are made for low-density American cities of the 1970's. Also, buses are not as likely to generate the pork-barrel politics and delays involved with building subways.

REMARKS BEFORE THE

AMERICAN COUNCIL ON CONSUMER INTERESTS

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I'm always happy to have the opportunity to talk to people such as you who are active in consumer groups and concerned with consumer interests, because I feel that we have a lot in common. In fact, I think that I spend just about every day, and have spent just about every day of the past two years, taking care of a friend of yours. I suspect that some of you may have been unaware of my good works in this area; if so, you certainly haven't been alone, because as long as your friend, that friend of ours, is around, as long as he is alright, there really isn't too much cause to notice him. It's when he's not alright that you start to notice him and when it's come to the point that he's gone that you realize what a friend he really was. The friend that I'm talking about is called "competition."

You know, we Americans, I think, have some very strange habits of speech, particularly public speech, that if someone makes a wise observation, we tend to adopt, not only the thought, but the actual words in which he frames that thought. Then these words become repeated and repeated and repeated until somehow they become fused together into some kind of symbol. That symbol then becomes part of the linguistic currency and is passed from lip to lip like a chalice from which many drink but into which few ever bother to look.

How many words or phrases can you think of, which summon immediate, reflexive, normative judgments in your mind? I can think of dozens. We load our political vocabulary with such heavy, connotative burdens that the words themselves surrender their meaning. The words become little more than normative signals which bypass the mind and appeal directly to our reflexes. And that's really not a very novel observation, because we have a term which describes the phenomenon -- the term, "knee-jerk."

When I was a kid one word almost universally treated in this fashion was the word "communism." At 12 years old I had very little idea of what communism really was. But I regarded it the same way I regarded polio.

It was evil. It was green, it was slimy, and unless I hated it adequately, it would come slithering under my door at night and turn my mind into jello. Now communism as I thought of it back then was not a word which described a concept, it was a negative value symbol eliciting a reaction which was totally unanalytic. I mention this today only because at the same time we allowed, and we allow today, other words to acquire the same kind of characteristics -- among them the phrase, "free-enterprise" and the word "competition," because, of course, free enterprise and competition were good. Freeenterprise and competition made you wholesome, they made you free, they made you rich, they gave you strong teeth, curly hair, and even funny papers on Sunday morning. But in the rote repetition of their virtues, I think that we lost sight of why free enterprise, why competition did all of these things, and to some extent, in the process, we lost sight even of what they were. While we knee-jerked in unison over the bounteous products of our free markets, we were permitting those markets to be encumbered by all sorts of things. We were blinded by our own rhetoric to the fact that what we were saying and what we were doing were inconsistent; blinded to the fact that in the final analysis, the free market is our best guarantee against rising prices.

It shouldn't really have to take an event on the scale of the oil embargo by an international cartel to call people's attention to the fact that it is only through vigorous competition that the consumer is assured of getting goods and services as the lowest economically possible price. It shouldn't take a stifled, nationalized industry to demonstrate just how much innovation and how much technological advance is dependent on competition. We shouldn't have to witness government misallocation of resources in order to know that it is only through competition that we can be sure that the scarcest resources of our society are being allocated in accord with society's values as reflected in our willingness to spend our money.

Now these are the wonders that competition accomplishes through the simple, but cunning, device of denying rewards to him who provides the consumer with relatively little satisfaction. And out there in the business world that power to withhold reward is powerful medicine. But it is medicine which those who do battle on the field of business are disinclined to take when it can be avoided. Some of those people are very resourceful at avoiding it. There are, I can assure you, very few methods of reducing the rigors of competition which some American businessman has not discovered and tried, and some other businessman not rediscovered and retried.

Some sixty years ago the Congress decided that the businessman's love of free enterprise, but hatred of competition, were both sufficiently ingrained in human nature to warrant institutional accomodations, and so the Congress established the Federal Trade Commission, and among other things, charged the Commission with a warning to be vigilant in the guarding of market freedom. In so doing, the Congress reaffirmed the view embodied some twenty-five years before in the Sherman Act, which was that if there were less freedom, there would be less enterprise, and if there were less enterprise, we would, all of us, be worse off.

Now the weapons which the FTC was armed with were the anti-trust statutes and the power to move against unfair and deceptive practices in the market place. And though the Commission was given somewhat more than a whistle, it's role, in a very meaningful sense, was analogous to that of a referee. Now today we still, I believe, have the need for continued vigorous, anti-trust enforcement, perhaps more than ever before and for all the other sorts of market surveillance. But today we also have another need. Because today we have another threat to competition over and above the threat to competition which derives from private collusive arrangements or price-fixing arrangements or what have you, and that is a threat which in all too many instances is already a reality. That threat is the threat of unreasonable governmental regulation. One really doesn't have to look very hard for examples.

Our government, in its zeal to control the nation's transportation system, has laid down a roadbed of regulation which our common carriers have ridden to the brink of bankruptcy and in some cases beyond. And what do we, the public, have to show for it? What we have are the fossilizing bones of a dozen or so rail passenger services, what we have is airline industry which is almost totally dependent on the federal government to protect it from would-be competitors willing to lay on service at substantially less than the prevalent price. In fact, I think that because of the so-called regulatory protections which have been lavished on it over the years, our airline industry has become like a "knight-in-armor" who is so safe that he cannot walk and has to be hoisted onto his horse with a crane. The unfortunate part about it is that the public, meanwhile, is expected, not only to pay to keep that armor shiny, but to pay for the operation of the crane as well. And furthermore, at least until very recently, there has been no such thing as price competition in the interstate airline industry. The only choice which we were given if we were going to fly someplace was whether we would prefer to fly Trixie, Cheryl, or more recently now, Bruce.

Then we have the Pentagon -- the government's biggest spender -- paying a buck-and-a-half for a screwdriver that it could actually be buying for a buck, and why? Because there's a government regulation which says it's against the national interest to buy military materiel abroad. And, in fact, the Federal Government is not the only offender.

We have state regulation which permits the California Milk Producer's Association to dump 420,000 gallons of fresh skim milk into Los Angeles Harbor. Why? Because that association didn't like what that milk might do to prices if it were dumped on the market instead. And we have professional associations hiding their greed behind a facade of state supervision, as in the case of the Arlington County, Virginia, medical society, which recently opposed measures to publish doctor's fees, and in an incredibly candid statement, as its president explained, "If we did that, why, then we would have people shopping around for the lowest price."

In short, what I'm saying to you this noon is that for a nation that is troubled with great economic problems as we are, we have some mighty strange governmental policies aggravating an already difficult situation. Why? Why do we have to raise airline fares when we have planes flying around half empty? Why do I have to pay five times as much for the same

drug as my neightbor, just because we happen to walk into different drugstores? Why should it be cheaper to fly from Washington to Richmond, Virginia, and then back to Washington and then to Denver than to fly straight from Washington to Denver? Why must we send empty trucks scurrying around the country when there is freight waiting to be delivered and we are told we must save all of the gasoline we can? Why does that government of ours pay a back-and-a-half for the screwdriver it could buy for a dollar? Why do we let some manufacturers fix prices on retail sales despite our anti-trust laws?

Now you don't have to go very far before you can find someone who will give you an answer to all of those questions. But when they do, let me suggest two more questions which you should put to them. First of all, is it worth it? And the second question is, whose right is it to decide whether it's worth it? My own view is that it is rarely worth it; that in most cases, the cost of the kinds of regulations which create the anomalies I've just mentioned are greater than the benefits; and that, in any event, it is high time we made the costs <u>and</u> the benefits known to the consuming public so that the consuming public can decide for itself.

In too many instances governmental regulation is no less competitive than private collusion, nor are its consequences distinguished from the consequences of private collusion and price-fixing. Now it may be, as some would argue, that in some of these areas the government was originally called in to correct a legitimate economic ailment. I frankly don't know that I necessarily buy that, but even if it is true, the government has turned out, in these instances, to be the doctor who came to dinner and who stayed, and is in the process of eating us out of house and home. It is too bad that it has taken double digit inflation to remind us of that fact because I would've hoped that it should have been clear all along. But these regulatory policies to which I've referred, though costly and irrational, will not easily be dismantled, because there are powerful interests -- both private and public -- which will fight for their retention. As the economic issues become mixed up with the politics of our legislative process, as they inevitably do, the few who have a lot to lose will speak more loudly than the many who have a little to gain. And moreover, even if the political obstacles can be overcome, changes in regulatory policies will not bring lasting benefits to the public unless we develop a clear understanding of the economic and social factors which brought about this excessive regulation in the first place; because if we do not, those factors will either persist or recur and our economy in due time will fall prey to regulatory recidivism. So very briefly, let me ask, what are the origins of some of the regulations? There are all kinds of reasons given.

It is argued that some were enacted to protect infant industries, some to protect consumers, some for national security purposes, others as straightforward concessions to raw, brute political power. We have regulations to protect, regulations to promote, regulations to price, regulations to prohibit. We have federal regulations, state regulations,

local regulations, and regulations enforced by professional associations with the consent of the government. I suggest that while our regulations have many fathers, they all have the same mother, and that is the belief that somehow government can do it better. But experience has shown us that this was an inaccurate belief, an inaccurate perception, that it was a perception that, I suggest to you, sold and sells the market place short.

But the fact of the matter is that if we are going to be able to persuade the public to put more faith in the market place, to in effect permit meaningful competition, whether it be in our airline industry or wherever else, we must make certain that that market place is, in fact, operating, and operating well. In other words, if I may turn a full circle, we will not be able to rid ourselves permanently of the burdens of regulation unless we have more vigorous anti-trust enforcement in the future. Because it simply makes no sense to talk about de-regulation without, at the same time, talking about anti-trust. It will do no good to clear the decks of government obstacles to private competition unless we also insure that government sponsored cartels and price-fixing will not be replaced by private monopoly and private exploitation. And that, in a nutshell, is the role of anti-trust enforcement. In a sense, I look upon it as preventive maintenance for a free economy.

Regulation and anti-trust enforcement are alternate responses to breakdowns in the free market. The difference is that the latter, anti-trust enforcement, I think provides a cure, while the former only re-distributes and compounds the cost. And that is also why I say that it will do little good to deregulate unless we take fully into account not only the economic but the social origins of that regulation. If we restore competition, but fail to convince the public of that fact, we only pave the way to another round of regulation at a later date.

Today, in April of 1975, we in the United States are moving through a period of economic hard times. In the past, similar circumstances have led to increases in the government's involvement with the economy, to greater kinds of regulations of the kinds that I've just mentioned. Now, through all of this, the intent may have been compassionate, but too often, the results have been cruel. As long as that economy of ours surged ahead like a luxury liner, as long as that pie kept getting bigger and bigger, the inequities and the diseconomies of our actions were matched by a steady rise in our standard of living. But today that luxury liner of ours is dead in the water, at least for the time being, and that pie isn't getting any bigger anymore. While I don't really believe that the liner is in any danger of sinking, I suggest to you that it is time that we look to the logic of the lifeboat lawyer; because we are overloaded, and something has to be jetisoned. I think that consumers all across this country of ours would do well if we could throw over-board one of our heaviest burdens and that is the burden of self-imposed inefficiency, the burden of excessive governmental regulation.

Thank you very much.

ABSTRACT

ATTITUDES OF BUSINESSMEN, CONSUMERS, AND CONSUMERISTS TOWARD CONSUMERISM

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Despite the apparent concern about consumerism issues by various consumer groups, it appears that much of this concern has been based on speculation and casual obervations. There is a paucity of empirical research regarding attitudes toward consumerism. This study is the first to assess the attitudes of business people, consumers, and consumerists toward several important consumerism issues.

Conclusions and Implications

A major conclusion drawn from this study is that the attitudes of businessmen, consumers, and consumerists appear to be distinctly different from each other in all the subareas of consumerism with the possible exception of the environment. Pro-business and pro-consumer spokesmen often are in an endless debate with each other that each group best represents the consumer. It is apparent from this study that neither business people nor consumerists closely represent the views of consumers toward consumerism issues. However, in three of the five subareas of consumerism -- product information, advertising, and the environment -- consumer attitudes were considerably closer to the attitudes of consumerists than to those of businessmen. On the other hand, consumers do not share the views of consumerists regarding government-imposed safety standards, the difficulty of obtaining product information, government regulation of businesss, and the amount of water pollution caused by business.

This results have important policy implications for consumer groups, politicians and business people. Consumer groups should try harder to elicit and then represent the views of consumers. Broad based studies are needed so that consumer groups can more accurately reflect the views of consumers. Since consumers do not support government regulation as strongly as consumerism literature purports, stronger more effective self-regulation by industry may be a way to reduce consumer complaints and avoid further government controls. However, consumers do want more meaningful product information at point of purchase. Another conclusion is that corrective advertising is supported as a means of reducing inaccurate advertising. Consumers view product safety as less of a problem than consumerists which may suggest the consumer groups minimize efforts on it and concentrate on areas of greater concern. Since consumers and consumerists have fairly similar views about the environment, this might be the basis for increased consumer support of consumer groups leading to greater impact.

-- abstracted by Karen Hull

LEVELS OF FAMILY FINANCIAL MANAGEMENT FUNCTIONING

A MULTIVARIATE ANALYSIS

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A major concern in the field of family economics is the ability of families to successfully manage their finances. Financial outcomes are consequent of certain specific behaviors of families relating to a complex of interdependent variables which are basic to financial management. Intuitively, and from the body of the literature, these variables identify themselves as the debt ration, the length of debt, the liquid asset holdings and insurance coverage of families.

These variables are frequently discussed in the literature as being unidimensional aspects of financial management, bearing no relationship to and having no dependence on any of the other variables. Frequently, the consideration of each variable leads the reader to conclude that it is the sole cause of a certain financial outcome. In short, the literature generally attributes certain relative values of each variable to success or dysfunction in financial management without considering the effect of each variable upon the others or the effect of the interrelationships of variables upon the consequent financial outcome.

This study attempts to interpret family financial management from a multi-dimensional viewpoint. It recognizes that behavior of a family in relation to one variable cannot be considered an adequate explanation or cause of the observed financial outcome. Rather, all variables react together and, therefore, the combination of variables resulting from a family's financial behavior should be examined in order to explain the financial outcome.

Three levels of family financial management functioning have been developed in this study to represent the outcomes of different combinations of the variables, debt ratio, length of debt, liquid asset and insurance coverage. This study explores the idea of identifying the combinations of variables and the values of the variables which can be associated with each level of functioning.

Different behaviors of families produce different combinations of variables, which, in turn, means that the families are operating at certain levels of financial management functioning. By identifying the combinations of variables which are associated with each level of functioning, it is possible, by having relevant knowledge of a family's financial characteristics, to predict the level of functioning at which it is operating and hence, to determine whether corrective action and guidance is advised, and, if necesary, what that action might be.

At the same time, the financial behavior of families is not constant. Decisions are frequently being made which may influence their level of functioning. By understanding the components of each level, it is also possible to predict or anticipate the effect of a behavior resulting from a major financial decision. The effect of such behavior may be to raise or lower a family's level of functioning or to leave the level unchanged.

DEFINITION OF VARIABLES

Level of Family Financial Management Functioning

As level of family financial management functioning is a concept developed in this study, there is a need to define the behavior of families operating at each level -- high, intermediate, and low.

(a) A high level of family financial management functioning corresponds to the first debt repayment behavior described in the financial behavior checklist. (The financial behavior checklist is described in the section: Description of Instruments.) This is the behavior where families pay all their bills when they are due and they always have enough money to do this.

(b) An intermediate level of family financial management functioning corresponds to the second and third debt repayment behaviors described in the financial behavior checklist. The second behavior is where families pay all their bills when they are due but in order to do this they have to "tighten their belts." (This means they eliminate unnecessary or extra items, such as extra food or clothing in order to have the bills taken care of that month.)

The third behavior is where families usually pay all their bills when they are due. Sometimes, in order not to cut their budget, they have to let one or two bills go to the following month. (This means they have to leave one or two bills unpaid so that their level of living is not lowered.)

(c) A low level of family financial management functioning corresponds to the fourth and fifth debt repayment behaviors described in the financial behavior checklist. The fourth behavior is where families usually pay their bills when they are due. Sometimes they cannot meet one or two bills even after "tightening their belts." They usually let one or two bills go to the following month.

The fifth behavior is where families have "tightened their belts" as far as possible. They cannot meet all their bills when they are due. They always have bills to pay from previous months.

Following the conceptualization of the level of family financial management functioning as the dependent variable, the financial behavior checklist was constructed to measure this variable.

Families classified themselves into high, intermediate, or low levels of family financial management functioning. They were asked to check one of five categories on the financial behavior checklist which best described their debt repayment behavior. For the analysis of data the five debt repayment behaviors were collapsed into three levels of family financial management functioning.

Behaviors 1, 2 and 3, and 5 and 5 corresponded to high, intermediate, and low levels of family financial management functioning, respectively.

Length of Debt

The length of debt was the number of months from the incurring of current debts to the time of the interview, weighted by the monthly payment on those debts. This past aspect was considered appropriate since a family's present level of financial functioning was, in part, a result of past managerial behavior.

Liquid Asset Holdings

Liquid assets were defined as balances in checking accounts, savings accounts at banks, savings and loan associations, or credit unions, certifications of deposit, U.S. savings bonds, and other corporate or government bonds or securities or stock. Only liquid assets were included as such assets could be immediately converted into cash in a financial emergency.

The sum of liquid assets as defined was the data used in the analysis.

Insurance Coverage

The holding of insurance was considered important in maintaining a high level of financial management functioning since the cost of unexpected expenses could then be spread over many years rather than necessitating large monetary expenditures at any one point in time.

Insurance coverage included five areas of risk, the nature of these being that they could not be anticipated by families and also that losses, if incurred, were generally great and could severely disrupt a family's financial management functioning. For the purposes of this study it was simply ascertained whether or not families carried each type of insurance.

The five areas included:

(a) automobile insurance
(b) homeowners or tenants insurance,
(c) medical insurance
(d) disability income insurance
(e) life insurance

Debt Ratio

Debt ratio was defined as the percentage of monthly after-tax income which was allocated to debt repayment, excluding mortgage debt.

DESCRIPTION OF INSTRUMENTS

Financial Behavior Checklist

The financial behavior checklist was developed for use in this study, in conjunction with another study, to obtain information relating to the level of family financial management functioning, the dependent variable. The checklist represented the verbalization of families debt repayment behavior -- different methods of handling debt repayment corresponding to the behavior outcomes of different levels of family financial management functioning. The checklist described five debt repayment behaviors. This included all possible behaviors and therefore corresponded to levels of family financial management functioning ranging over the entire continuum. (See Appendix A)

The Questionnaire

The questionnaire was designed to collect data on families' liquid assets, on their insurance coverage, on their debt repayments and the length of time they had been paying on existing debts and, finally, on their income. The information was used to determine the independent variables.

HYPOTHESIS AND SURVEY PROCEDURES

It was hypothesized that the level of family financial management functioning was a function of the debt ratio, the length of debt, and the liquid asset holdings and insurance coverage of families.

Information on all variables was obtained by personal interview and questionnaire. A random sample of 250 names was drawn from a total of 1397 employees of an industrial company in Lancaster, Pennsylvania. However, complete and usable data was collected from only 98 families. The decision to use the employment list of an industrial company as the population resulted in a final sample of families having characteristics of education, occupation, and income which appeared common to many U.S. families. Wages comprised the primary income source and families at all stages of the life cycle, except retirement, were included.

Fourteen female interviewers, trained over a two month period, asked respondents to identify their own financial behavior as described on the financial behavior checklist and also to give verbal answers to the questionnaire. Forty seven families classified themselves into a high level of functioning, 27 into an intermediate level, and 24 into a low level.

ANALYSIS AND FINDINGS

A discriminant analysis technique was used to test the hypothesis that there was a relationship between the level of family financial management functioning and the independent variables. Since this relationship did exist, discriminant analysis could be used in this study for two purposes:

(a) to predict to which level of functioning a family would belong on the basis of its debt ratio, its length of debt and its liquid asset and insurance holdings, and

(b) to find the variable or variables which were most important in classifying families into particular levels of functioning.

Classification Matrix

The first output of this analysis was the classification matrix. This gives the number of correct and incorrect classifications of families into levels of functioning on the basis of the families' debt ratio, length of debt, liquid asset holdings, and insurance coverage -- the greater the percentage of correct classifications, the more distinct are the levels.

Table 1 gives the normalized classification matrix for this study showing the correct and incorrect classifications. Figures along the principal diagonal represent correct classifications while figures off this diagonal represent incorrect classifications. Total correct classifications of families into their correct level of functioning number 62 or 63 percent.

Table 1 shows that for a high level of functioning, the probability of correct classification was .72. In other words, the model could discriminate between families at different levels of functioning so that families operating at a high level had a probability of .72 of being classified as operating at that level. Similarly, families operating at a low level of functioning had a probability of .71 of being classified into that level. The intermediate level of functioning appeared to be less clearly defined as the probability for correct classification into that level was much lower at .41. This means that only 41 percent of families operating at an intermediate level of functioning would be classified into that level and 59 percent would be incorrectly classified into a high or a low level of functioning. The probability for correct

classification of families into a high or a low level was therefore much greater than into an intermediate level. The table shows that families at an intermediate level had a closer association with families at a high level than with those at a low level of functioning. This suggests that the financial characteristics of families operating at an intermediate level of functioning tend to be more similar to those of families operating at a high level than those operating at a low level.

TABLE 1

Normalized Classification Matrix for Four Variables
and Three Levels of Functioning

Actual Level of Functioning	Predicted Level of Functioning			
	High	Intermediate	Low	Total
High	.72	.15	.13	1.00
Intermediate	.37	.41	.22	1.00
Low	.08	.21	.71	1.00

Total correct classifications = 62

Percent correct classifications = 63%

A χ^2 test, in connection with the contingency table prepared from the classification matrix, indicated that the discriminant functions, determined on the basis of families' debt ratio, length of debt, and liquid asset and insurance holdings, classified a greater number of families into their correct level of functioning than could have been correctly classified by chance.

Discriminant Coefficients

Table 2 presents a most useful output of the analysis, the table of discriminant coefficients. The value of each coefficient represents the effect of the variable in classifying families into each level of functioning.

Certain family financial characteristics can be observed by looking at the extreme values of the discriminant coefficients for each variable. A variable contributes most to the probability of classification into that level of functioning for which it is most positive. Conversely, a negative coefficient indicates the extent to which a variable is not likely to be associated with a particular level of functioning. In Table 2, there are no negative coefficients which indicates that no

level is negatively associated with any variable. Association between all levels of functioning and all variables is positive but differs in strength. Variables whose coefficients are near zero for any level do not much affect the probability of classification for that level.

An analysis of the discriminant coefficients in Table 2 produced the following profiles of families at each level of functioning.

High level of functioning. Families with the broadest insurance coverage have the greatest probability of being classified into a high level of functioning. Length of debt ranks second in importance in assigning families to a high level. However, this variable contributes much more to classifying families into a low level than into a high level. Liquid asset holdings contribute more to classification into a high level than into any other level. Families with the lowest debt ration are more likely to be classified into a high level of functioning.

TABLE 2

Multiple Discriminant Coefficients for 3 Levels of Functioning and 4 Variables

Variables	Discriminant Functions		
	High	Intermediate	Low
1. Liquid Assets	0.4664	0.2332	0.3625
2. Insurance	2.6512	2.1980	1.0554
3. Debt Ratio	0.3188	0.7533	1.3274
4. Length of Debt	0.5214	0.3163	1.0278

Intermediate level of functioning. One could expect that extreme values of the discriminant coefficients were not found at this level. This is true for two variables, insurance and debt ratio. However, for the other two variables, liquid assets and length of debt, the coefficients for an intermediate level were slightly lower than the coefficients of the next lowest level.

Possession of insurance contributes most to the probability of classification into this level. Of lesser importance is the debt ratio position. Length of debt tends to be shortest for these families and their liquid asset discriminant coefficient represents only a weak classifying variable.

Low level of functioning. The larger the debt ratio and the longer the length of debt the greater the probability of families being classified into a low level of functioning. Families with the lowest insurance coverage are also likely to be classified into this level. Liquid asset holdings are less important than any other variable in assigning families into a low level of functioning.

The following points briefly summarize the above.

1. Insurance is most positively related to a high level of functioning and has the weakest relationship with a low level of functioning.
2. Liquid assets are most positively related to a high level and have the weakest relationship with an intermediate level.
3. Possession of insurance has a greater effect on the probability of classification into a high level than have liquid assets.
4. Debt ratio is most positively related to a low level of functioning and has the weakest relationship with a high level.
5. Length of debt is most positively related to a low level and has the weakest relationship with an intermediate level.
6. The effect of variables on the probability of classification into an intermediate level of functioning is generally intermediate of the effect on a high and a low level.

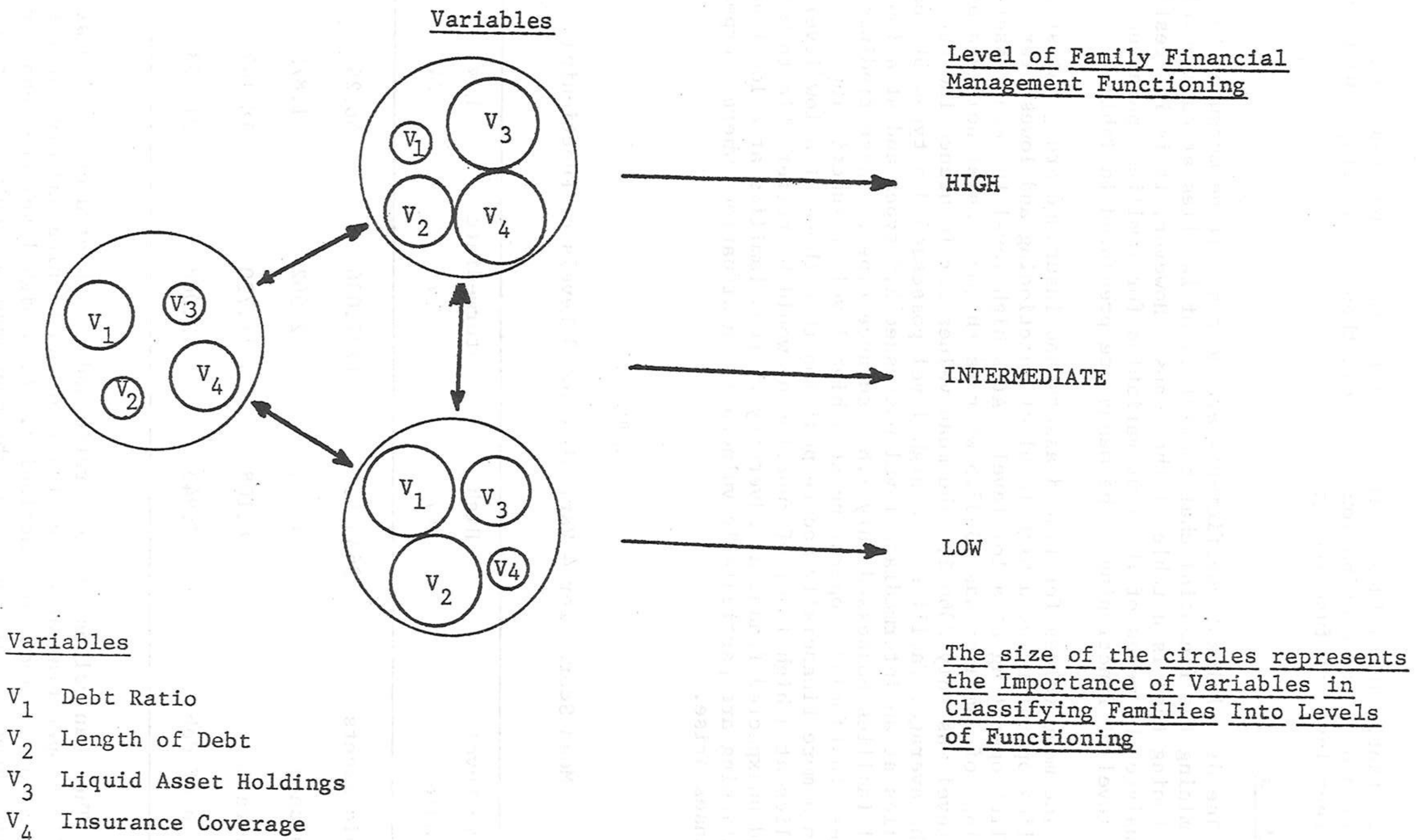
Table 2 presents the value of the coefficients for insurance as being very high relative to the values for the other variables. This is particularly the case for liquid assets whose coefficient values go down in the same direction from a high level to a low level as do those for insurance.

However, it seems likely that insurance may be reflecting an underlying, unspecified characteristic of families as well as their possession of insurance types. Families who have maximum financial protection may be those whose economic behavior is strongly geared towards security. Insurance may be reflecting some of the social and economic characteristics of families that are commonly looked at by lenders such as age, sex, marital stagus, income, length of time on the job, owning versus renting, amount of existing debt and past payment habits. These quantitative factors are proxies for personal (internally oriented) factors such as ability to pay, willingness to pay, ability to manage a debt and ability to resist the temptation of overborrowing.

Insurance may also be a proxy for the same internally oriented factors resulting in the higher values for the discriminant coefficients.

Figure 1 is a diagrammatic presentation of the concept of family financial management behavior from a multi-dimensional viewpoint. It incorpoarates the financial characteristics of families at each level of functioning based on the interpretation of the discriminant coefficients. Figure 1 shows different combinations of the four variables as they react together to produce the three levels of financial management functioning. It also shows that the interrelationship among the variables is

Figure 1. Interrelationship of Variables with Level of Family Financial Management Functioning



not constant. The values of the variables may change resulting in the formation of a new combination which can then be associated with a different level of functioning.

The Means

The discriminant coefficients are more sensitive measures for determining the financial characteristics of families at each level of functioning than is a table of the means. However, it is interesting to analyze the means of the four variables for families operating at each level of functioning. The means are presented in Table 3.

The mean values for liquid assets and insurance are greatest for families operating at a high level of functioning and lowest for families operating at a low level. At a high level the mean asset holdings of families was $3635.5 whereas the mean asset holdings at a low level was only $366.2. The mean values for insurance indicates that, on the average, families at a high level possessed 3.5 types of insurance, families at an intermediate level possessed 2.9 types and at a low level families possessed only 1.8 insurance types. These findings suggest that families operating at a high level of functioning tend to be in a more financially secure position than those at a low level. The families at a high level of functioning would be better able to withstand unexpected financial adversity whereas families at a low level of functioning are particularly vulnerable in situations where unexpected expenses arise.

TABLE 3

Mean Scores for 4 Variables and 3 Levels of Functioning

No. in Level Variable	High 47	Intermediate 27	Low 24	Total 98
Liquid assets	3635.531	1797.036	366.250	
Insurance	3.531	2.962	1.875	
Debt ratio	8.108	11.720	18.147	
Length of debt	12.943	12.068	21.953	

The mean values for debt ratio and length of debt are lowest for families operating at a high level of functioning and highest for families at a low level of functioning. At a high level the mean percentage of take-home pay allocated to debt repayment was only 8.1 percent. For

families at an intermediate level this mean value was a little higher at 11.7 percent. However, the mean debt ratio increased considerably to 18.1 percent for families operating at a low level of functioning.

For families at high and intermediate levels the mean period of time over which debts had been incurred was 12.9 months and 12 months, respectively. But families at a low level of functioning had incurred debts, on the average, over 21.9 months. Thus families at a high level could be expected to allocate a relatively small amount of their income to debt repayment, the debts extending over a relatively short period of time. On the other hand, families at a low level could be expected to allocate a relatively large proportion of their income to debt repayment which extended over a much greater period of time. This indicates that, in a situation of financial stress, families at a high level would be better able to redirect current income to help alleviate the problem. However, families at a low level, having reduced their flexibility in regard to current income because of the extent and the length of their indebtedness, would be unable to halt the deterioration of their financial position. Also, since the liquid asset holdings and insurance coverage of these families was low, they generally did not have emergency funds and insurance protection as a "cushion of financial relief" which was a characteristic for families at a high level.

CONCLUSION AND IMPLICATIONS

Conclusions

The overall results appear to include some unexpected findings. From the interpretation of the discriminant coefficients it seems that all variables were able to discriminate between families which were at different levels of family financial management functioning. The bulk of family financial management literature indicated that the debt ratio was by far the most important variable to look at when evaluating a family's financial management techniques. The literature generally placed lesser importance on liquid asset holdings and insurance coverage and the variable, length of debt, was rarely mentioned.

However, the results indicate that, although the coefficients for an intermediate level of functioning occupied the lowest position for two variables rather than the intermediate position, all variables did distinguish well between a high level of functioning and a low level of functioning.

The financial behavior checklist, developed in this study to measure level of family financial management functioning, has proved to be a valuable tool. Intuitively, and from the body of the literature, certain variables have come to be associated with success and dysfunction in financial management. Families were classified into different levels of functioning substantiating the direction of the literature. As the checklist proved an adequate measure of these levels it was further validated as an instrument to measure level of family financial management functioning.

Implications

This study concludes that the level of family financial management functioning is related to debt ratio, length of debt, liquid asset holdings and insurance coverage. Much financial management advice literature has been written based on observation without controls. This study has shown empirical evidence that advice of money management experts could legitimately consider more multi-dimensional aspects of family financial well-being.

Since overall financial characteristics of families in each of the three levels of functioning is known, this permits remedial action to be undertaken in order to raise (or lower) a family's level of functioning. For example, a family in an intermediate level, which has adequate insurance coverage but a low amount of liquid assets and a high debt ratio, could move into a high level of restricting additional debt commitments and adding to its savings account the money released from debt repayment.

The practical value of this study may be of primary importance to individual families who wish to have some control over the various aspects of their financial behavior. Understanding the financial characteristics of a high level of functioning, individual families may wish to assimilate into their own behavior the combination of variables which produced a high level of financial functioning. This study presents the opportunity for evaluative consideration of a family's finances, for the correct remedial action to be taken by a family which wishes to raise its level of functioning, and for a family to plan important financial behavior in the light of its future level of functioning.

Family financial counselors and educators may also benefit by having greater insight into the multi-dimensional aspects of financial management. Family financial counselors, as they advise clients on the maintenance of a high level of functioning or diagnose the financial problems of families at a low level of functioning, may be better able to advise the allocation of money between credit payments, assets and insurance, and other expenditures in order to minimize the possibility of future financial disaster. Educators may wish to explain and emphasize to their students the interrelationship between the variables researched in this study and their impact on overall financial outcome.

SUMMARY

The variables, debt ratio, length of debt, liquid asset holdings and insurance coverage are identified as being components of family financial management functioning. This study interprets family financial management from a multi-dimensional viewpoint. It recognizes that these variables react together and, therefore, the combination of variables resulting from a family's financial behavior should be examined in order to adequately explain the financial outcome. Three levels of family financial management functioning have been developed to represent the outcomes of different combinations of the variables.

Discriminant analysis was used to tast the hypothesis that there was a relationship between the level of family financial management functioning and the debt ratio, the length of debt, the liquid asset holdings and the insurance coverage of families.

The table of discriminant coefficients was among the output presented. Each discriminant coefficient represented the effect of each variable in classifying families into each level of functioning. An interpretation of the coefficients indicated that the financial characteristics of families at each level of functioning were the following:

a) high level of functioning	- broad insurance coverage - high liquid assets - low debt ratio - moderate length of debt
b) Intermediate level of functioning	- moderate insurance coverage - moderate debt ratio - low liquid assets - short length of debt
c) low level of functioning	- high debt ratio - long length of debt - narrow insurance coverage - moderate liquid assets

Knowledge of the financial characteristics of families in each of the three levels of functioning permits remedial action to be taken in order to raise (or lower) a family's level of financial management functioning. This may be useful to both individual families, family financial counselors and educators in their planning decisions and as a diagnostic tool and as a teaching aid.

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