A Nation In Debt

How we killed thrift, enthroned loan sharks and undermined American prosperity

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Frank Capra's 1946 film *It's a Wonderful Life* is the American Film Institute's pick for the most inspirational American movie of all time. Set in the fictional New York town of Bedford Falls, the story's grand narrative is about the wondrous gift of human life, but its less lofty plotline is hardly much less grand. It's about the travails of George Bailey and Bailey Brothers' Building & Loan, an institution that is an inseparable part of a stable, prosperous and above all virtuous community, as Capra makes clear by contrast with the evil fat-cat banker, Mr. Potter. At the film's climax, George Bailey's Bedford Falls neighbors and customers merge into a single society, grateful, generous and all pulling together in the face of adversity.

In an America just emerging from the cauldron of the Great Depression and the Second World War, no one needed to point out to viewers what a building and loan was or why it meant so much to many small and mid-sized American communities. Everyone understood that thrift was socially constructive, for through the accumulation of individual savings everyone benefited from rising prosperity, better education and hope for a brighter future. What war bonds had been for national security, thrift and home-building institutions were for family security. The social capital created through thrift institutions limited social polarization and marginalized the depredations of greed, so the real small towns of America never decayed into Pottervilles. This wasn't just sentimental bunkum from Hollywood; in 1946, this was as real as a social fact could be.

It's a Wonderful Life still makes for great entertainment, but a hint of sadness pervades viewing the film today in a way it did not sixty, or even thirty, years ago. That is because the American culture of thrift, epitomized by no less beloved a Founder than Benjamin Franklin himself, is at best on institutional life support. Somehow we as a society have managed to undermine a precious social virtue and enthrone what amounts to industrial-scale loan-sharking. In doing so we have undermined a source of America's real wealth and thus put its global leadership at risk. What has happened to America's thrift institutions? How did it happen, and what can we do to recover before it is too late?

Then and Now

The United States is experiencing a sharply growing polarization in access to institutional opportunities to save and build wealth. For most of the 20th century, nearly all Americans had access to grassroots institutions that helped them build a nest egg. These institutions included local retail banks, mutual savings banks, credit unions, savers' clubs, school savings-bond programs, building and loan associations, savings and loans, and labor union-sponsored savings plans. Some institutions, such as credit unions, building and loans, and labor union plans, grew out of a cooperative, nonprofit banking tradition expressly created for the "small saver." But even local retail banks offered passbook savings accounts and children's savings programs for families of modest means. Together, these institutions constituted a broadly democratic "pro-thrift" sector of the financial service industry.

In addition to providing opportunities to save, pro-thrift institutions also limited the amount of debt consumers could carry. Banks had strict rules for consumer lending. Americans who wanted to buy a house had to accumulate savings, apply to a local bank, document their credit-worthiness, undergo the scrutiny of the lending institution and usually make a 20 percent down payment.

Lending institutions were likewise constrained by government rules. Federal and state regulations set limits on the interest and fees lenders could impose, and some forms of thriftlessness were outlawed entirely. Lotteries were illegal in all states, usury laws prohibited predatory interest rates, and casino gambling was allowed in just a few venues like Las Vegas and Atlantic City. To be sure, some Americans still borrowed from loan sharks, pawned their wedding rings or gambled away the family farm. But such behavior was disreputable and well beyond the pale of responsible institutions as far as the vast majority of Americans were concerned.

Americans under the age of forty today can only gain knowledge of this reality by reading about it in books, for it can no longer be experienced directly. A thrift sector still exists, but it has ceased to be broadly democratic in its reach. The institutions that encourage thrift have moved uptown, catering to upper-income Americans with an ever-expanding array of tax-advantaged opportunities to invest and build wealth. The potential "small saver" has been left behind as prey to new, highly profitable financial institutions: subprime credit card issuers and mortgage brokers, rent-to-own merchants, payday lenders, auto title lenders, tax refund lenders, private student-loan companies, franchise tax preparers, check cashing outlets and the state lottery. Once existing on society's margins, these institutions now constitute a large and aggressively expanding anti-thrift sector that is dragging hundreds of thousands of American consumers into profligacy and over-indebtedness. America now has a two-tier financial institutional system—one catering to the "investor class", the other to the "lottery class."

The investor class, with ample access to institutions that foster wealth-building discipline, is served by a bevy of insurance agents, tax lawyers, stockbrokers, tax accountants, deferred compensation experts and investment bankers. They are likely to work in organizations with 401(k) plans, profit-sharing, Keogh plans, deferred income compensation and retirement savings programs. The lottery class, on the other hand, works in jobs that offer few pro-thrift benefits. As of 2004, seventy million of America's 153 million wage earners worked for employers without a retirement plan. Rather than being courted by investment firms, they are targets of modern-day, made-to-look-respectable loan sharks. Tens of millions of working Americans who might join the class of savers and investors under more favorable circumstances are being recruited into a burgeoning population of debtors and bettors.

Debt and Its Discontents

The ability to borrow is a good thing—or ought to be. Credit helps consumers buy houses, get educations, start businesses and acquire goods that may boost their job prospects and future income. As economists like to point out, consumer credit helps smooth out spending over a lifetime, allowing people to borrow in their lower-earning years in order to build assets and investments for the future.

But consumer credit is a double-edged blade: It can lead to greater opportunity and freedom, but, if promoted deceptively and used recklessly, it can lead to disaster, as the subprime mortgage failure has so painfully revealed. Even before the subprime debacle, however, many Americans were struggling with a growing debt burden. According to the Federal Reserve's measure of burdensome debt, in 2004 the typical family spent more than 18 percent of its income on debt payments, the largest share since the Fed started collecting these data. Moreover, the proportion of families with debt-service payments exceeding 40 percent of their income rose to 12.2 percent in 2004. Consumer loan delinquencies also rose during this period.

Some of this debt is natural in the sense that middle-income and young families—who make up the largest share of households in the heavy debt-service category—are at the stage in life where they are rearing children and buying big-ticket items like houses, cars, major appliances and computers. Many families have also been hit hard by stagnating wages and the rising costs of health care, food and energy, leading them to rely on credit not to build assets but to make ends meet.

Some aren't making it, however. Late fees and missed payments on credit cards have risen sharply, costing American consumers $17.1 billion in fees in 2006. About one in every seven American families reports that at some point in their lives they experienced debt problems serious enough to have caused them to file for bankruptcy or to use a credit consolidator. More than one out of three say their financial situation was "out of control" at some point in their lives. Even those able to manage high household debt are increasingly operating at the razor's edge of solvency, with little cushion to cover an unexpected expense such as a major car repair or a medical emergency.

Why are so many Americans struggling with high levels of debt? Some blame individual greed and recklessness, and certainly human frailty and irresponsible choices are part of the story. Others point to a culture of rampant, corporate-driven consumerism, buttressed by marketing techniques so sophisticated as to exceed the imagination of George Orwell himself. If you can find someone who honestly denies that this is part of the problem, sell him a bridge before it's too late. But soaring levels of household debt are also tied to another, often overlooked, source: recent changes in America's institutional and regulatory landscape.

Both statistical evidence and common sense make it clear that this is so. As to the former, many other countries in the world are similarly embedded in a corporate market economy, yet few other advanced countries confront a debt debacle comparable to that of the United States. The variable that can most readily explain the data is the different institutional/regulatory environments in different countries.

As to common sense, it is evident that in money matters, as in most things that matter, authoritative institutions play a role in guiding individual choices and in setting cultural norms. Few people understand the full range of forces affecting them, or have time to acquire the knowledge and self-discipline necessary to make informed decisions. That's where authoritative institutions come in. They establish the norms, conventions and values that vest individual decision-making with broader social wisdom and knowledge. But not all institutional set-ups are created equal. Some inculcate norms and values that foster unwise choices or contribute to unjust outcomes. Such is the case in today's American debt culture. Newly powerful and aggressive anti-thrift institutions are promoting behaviors and attitudes that have undermined our nation's traditional culture of thrift.

The Plastic Trap

Perhaps the most pervasive of these new anti-thrifts is the credit card industry. Plastic has become an American way of life. There are now more than a *billion* cards in the hands of U.S. consumers, and more than three quarters of American households have at least one of them. The average age of credit card holders is getting younger, too. Many teenagers get their first card in high school and most college students have at least one—indeed, a whopping 56 percent of final-year college students carry four or more cards.

It is little wonder that credit cards are so popular, for they are convenient, fast and easy to use. It's not the credit card itself that's the problem; it's that in the wake of the financial deregulation of the 1980s the credit card industry was the first anti-thrift sector to discover the huge but untapped profitability of the subprime market. In so doing, it upended the conservative philosophy that had guided consumer lending in the United States for a century. Instead of limiting the small-loan market to prime customers who were likely to pay off the entire debt in thirty days, the industry went after subprime customers who were likely to pay only the low minimum balance and to incur the additional costs of late fees, over-limit fees and other penalties on a regular basis.

The credit card industry was also the first to develop practices and products that ensured long-term consumer dependency on expensive credit. Low teaser interest rates that converted to double-digit rates, extra transaction fees and penalties, the securitization of debt, and abrogated relationships between the originating lender and borrower were not innovations of the subprime mortgage business. These practices were pioneered by the credit card industry.

During the 1990s, the credit card industry promoted its expansion into subprime markets under the banner of the "democratization" of credit. The industry was "reaching out" to the unserved and underserved, so that Americans who once had to make do with the cash in a weekly pay packet could now use plastic to make their everyday purchases. This democratization of credit, however, led to the widespread propagation of debt. Between 1989 and 2001, credit card debt almost tripled, from $238 billion to $692 billion. By fall of 2007, the amount of revolving consumer credit had reached $937.5 billion, a 7 percent increase over the previous year.

In the generally flush 1990s, many families were able to manage higher credit card debt without undue distress, but in today's more troubled times, families who once kept on top of their credit card balances—even if it meant paying only the minimum on several cards—are now toppling into delinquencies and defaults. Nearly half of all credit card holders have missed payments in the last year. With declining home values and tighter credit, fewer homeowners can draw on the equity in their homes to maintain their standard of living or to consolidate credit card debt. More households struggle simply to live from paycheck to paycheck, with no cash reserves or unused credit to keep them from economic free fall.

Payday Lenders

For families on the financial edge there is another place to turn to for "fast cash"—the local payday lender. Payday lenders serve up "fast cash" and "free money" to 15 million Americans every month. The industry solicits wage earners with incomes generally ranging between $18,000 and $25,000, people who mainly live from paycheck to paycheck and sometimes run out of money before their next payday. To qualify for a loan, most borrowers typically have only to produce a recent pay stub, current bank statement, blank personal check, driver's license or other government ID card, and proof of current address. While this is more evidence than some credit-challenged borrowers had to produce to get a $500,000 subprime mortgage, it is hardly enough to establish genuine creditworthiness.

According to a recent *Wall Street Journal* investigation, payday lenders are now intensively soliciting elderly and disabled recipients of government benefits. The reason is a change in the regulatory environment. For years, Social Security recipients received their government checks in the mail and cashed them at a neighborhood store or local bank. By the late 1990s, however, the Federal government began requiring electronic deposits of benefit checks into an established bank account, unless recipients chose to opt out. This saved money for the government, but it turned into an unexpected boon for the payday lenders. With the advent of direct deposit, many lenders could make predatory loans as an "advance" on the next month's benefits check. Since Social Security, veterans and disabled-benefit checks arrive every month for as long as the recipient is living, they represent a highly secure form of collateral. Making a loan on future Social Security checks bears about as much risk to a lender as spotting Warren Buffett twenty bucks.

Storefront payday lenders are commonplace in thousands of towns throughout America, and they work hard to cultivate a reassuring image of normalcy. Their clean, well-lit shops fit comfortably into the franchise landscape, with all the amenities of a McDonald's or a Burger King. Like fast food, payday loans can be ordered up and ready to go in a matter of minutes. At a local Check 'n' Go in the typically Midwestern Muncie, Indiana, a sign on the door reads: "Getting a loan is as easy as 1-2-3: l. Just Write Us a Personal Check. 2. Get the Cash You Need Instantly. 3. We Hold Your Check Until Your Next Payday ...It's Quick, Easy and Confidential."

Unlike fast food, however, fast cash isn't cheap. It typically costs the borrower the equivalent of an annual percentage rate (APR) of 300–400 percent. Payday loans contain another financially unhealthy feature, as well: They are structured so that it is hard for the borrower to repay the loan *in full*. Instead, many consumers end up with little choice but to pay special fees to "roll over" the original loan into the next payday, a practice that can lead to chronic dependency on expensive credit. Indeed, the profitability of the payday business depends heavily on getting borrowers into multiple rollovers: About 56 percent of payday lending revenue is generated by customers who take out 13 or more loans per year.

Payday lending has been able to thrive because of lax state usury laws. In 1965, every state in the union had a usury limit on consumer loans; today, seven states have completely deregulated interest rates within their borders, and at least 35 states allow lenders to charge the equivalent of more than a 300 percent APR on a typical payday loan. There are also significant regional differences in usury caps. The Northeastern states have been the most aggressive in limiting the pricing of consumer loans, while the Rocky Mountain West (Arizona, Colorado, Idaho, Montana, New Mexico, Utah and Wyoming) has been the most permissive. It is there that the median APR of state usury limits increased from 36 percent in 1965 to 521 percent in 2007.

So far, 12 states and the District of Columbia have essentially banned payday lending by placing interest rate caps on small loans. Likewise, Congress has imposed a 36 percent cap on payday loans to young, low-income military families—a popular target for the predatory payday industry. And the FDIC has encouraged banks under its purview to market small-loan products to the general population with interest rates of 36 percent or less. Other, more narrowly focused efforts to discourage payday lending, such as limiting the number of outstanding loans per consumer, restricting the number of rollovers, or introducing extended repayment plans, have been less effective in eliminating the payday debt trap.

State Lotteries

Payday lenders are not the only anti-thrift outfits to set up shop in recent decades. After being shuttered for many years in every state in the union, the lottery has now become an all-American institution. In the past year, more than half of the nation's adults have played one of the nation's 43 lotteries, and about 20 percent of all Americans are frequent players. In 2006, state lotteries raked in $57 billion, representing a roughly 500 percent increase in per capita spending on the lottery since 1973. No other government agency makes itself such a regular presence in American daily life. Lottery tickets are sold at about 200,000 mini marts, bodegas, newsstands, bars, bus stations, check cashing outlets, mall kiosks, liquor stores, supermarkets and gas stations nationwide. Lottery ads pop up on buses, subways and billboards. Live drawings take place during the nightly news.

State lotteries don't simply make their products available: They actively seek to "grow" their market. Lotteries work hard to hold onto current players, entice new players into the game and increase the frequency of play. Their business plans set the goal of making regular betting a part of individuals' daily or weekly rituals, and their methods seek to habituate players to the game: the suspense of scraping the latex square on the instant ticket to reveal the number underneath, the excitement of watching numbered balls drop down a chute in televised nightly drawings, the emotional rush over getting a small payout and the addictive cycle of trying to beat the lottery "house" with just one more ticket. And, of course, they avidly market the big winners, to make it seem as though winning big is vastly more frequent an occurrence than it really is.

As a source of public revenue, the lottery is highly regressive. As figure 1 shows, players with lower incomes tend to spend *more* on the lottery than those with higher incomes. Even more to the point, people with lower incomes spend a larger *share* of their incomes on the lottery. A household with an income under $12,400 spends 5 percent of its gross income, but a household with an income of $124,000 spends about one-third of one percent of its gross income.

Furthermore, as an influence on the spending-versus-savings decisions of people with lower incomes, the lottery promotes spending. That is, lottery players at the lower-income range suffer a larger anti-thrift effect: They give up the opportunity to save the proportionately larger share of dollars spent on the lottery. Presumably, if a low-income household can spend $645 on the lottery, it can save and invest that same $645. The Tax Foundation estimates that if that household were to invest the same amount in stocks every year for forty years, it could expect to have $87,191 (in 2006 dollars).

Although the lottery extracts its revenues disproportionately from the less privileged, it distributes funds to causes with broad public support across all income groups, such as education. Lotteries rarely dedicate revenue to chronically underfunded programs for halfway houses, prisoner release services, homeless shelters, services to the disabled, domestic violence prevention and drug abuse treatment. In some states, lotteries have even funded projects that favor the more privileged. For example, a 1991 study of the Florida lottery found that lottery-funded expenditures for K-12 education disproportionately benefit those at higher incomes, and a University of Georgia survey showed that black respondents were significantly less likely to have someone in their household who received a HOPE scholarship, the lottery-funded program for college-bound students. In Massachusetts, where lottery revenues are distributed in local aid to the 351 cities and towns across the state, communities with the strongest lottery sales do not receive commensurate levels of local aid. Residents in the old industrial city of Lynn spend $85 million a year on tickets and games, but the city receives just $15 million a year in lottery-financed local aid—a net loss of $70 million.

Shaping a Debt Culture

Few people enjoy being over their heads in debt. It is usually a stressful and unhappy experience, straining family and work relationships, leaving a blot on one's social reputation, and limiting one's freedom to achieve life goals. Under ordinary circumstances, people try to avoid what earlier generations called "financial embarrassment." In past decades, too, the social geography of the financial world reinforced psychological inhibitions against carrying too much debt. Reputable lenders were located in the commercial heart of town, disreputable ones on the shadowy fringes. Bank architecture conveyed solidity, loan-shark architecture reflected seediness. And a moral language that unabashedly labeled usurious lenders as "loan sharks" and "payroll leeches" set these businesses apart from the respectable mainstream. This combination of personal aversion to debt, the social stigma of over-indebtedness and the grubby image of predatory money-lenders provided extralegal checks on the temptation to live beyond one's means.

The anti-thrift industry has worked relentlessly to destroy these traditional inhibitions and stigmas. One strategy has been to improve the image of their businesses; hence the familiar franchise architecture of the suburban strip mall for payday lenders. Another approach is to treat over-indebtedness as commonplace. Payday lenders cast themselves as friendly professionals who offer "finance solutions for all situations." Indeed, they've expunged the words "debt" and "loan" from their advertising. One payday lending website brazenly calls its product a "cash advance savings account." What's more, their marketing pitches proclaim, they have solutions for "your problems." They pretend to care about you. Indeed, they are "there for you as often as you need them"—in other words, as often as you need to roll over your existing loan.

Whatever the specific anti-thrift business—whether payroll advances, credit card purchases or lottery tickets—they all offer instant gratification. They promise "fast cash", "fast service" and "fast solutions" to money problems. To deliver on that promise, they structure their services in such a way as to maximally separate the time of the loan or purchase from the time of payment. This makes it easier for the consumer to get the money or goods immediately without having to think hard about the high cost of the credit—or, in the case of the lottery, the infinitesimal odds of a major payoff.

Further, to foster the trust of the borrowing public, some anti-thrift institutions link their business interests to those of highly credible institutions. The credit card industry, for example, makes deals with colleges and universities to use their campuses to market expensive credit cards to students. College students who accept cards from on-campus marketers are likely to be more indebted than those who obtain cards through other means, yet they are also likely to believe that the card issuers are more reputable because they have been screened by the college.

Like other value-shaping institutions, the anti-thrift industry takes seriously the task of initiating the young into a debt culture. Lottery officials now see 18- to 25-year-olds as the demographic group with the greatest future potential for increasing lottery play and revenues, especially with the expansion of online gambling. The Texas Lottery, one of the few state lotteries required to provide detailed demographic breakdowns of its consumers, looks to be well on the way to cracking that youthful market. According to its 2006 report, 18- to 24-year-old players spend a median $50 per month on lottery play, the highest level among all age groups.

The credit card industry, meanwhile, is intent on making the acquisition of a teenager's first credit card a rite of passage into a cashless consumer culture. Some card companies market their cards as money management tools, although most financial experts believe that kids are better off if they learn to save first and then use cash. Clearly, young credit card users often fail to appreciate how much things cost, fail to grasp the concept of a sales tax, and, perhaps most important, fail to experience the *tristesse* of an empty wallet following a spending spree. Nonetheless, to appeal to college students, credit card issuers often dangle the lure of prizes and points: Chase +1SM Student MasterCard offers the limited edition Facebook T-shirt plus "Karma Points" for purchases of music, movies and electronics; Citi mtvUTM Platinum Select Visa Card delivers extra "ThankYou Points" for "every dollar spent on restaurants, bookstores, record stores, movie theaters, MTV events, and airline tickets", as well as 250 to 2,000 "ThankYou Points" twice a year for maintaining a good grade-point average. Even Pavlov would be aghast.

Two Models of Reform

This is not the first time that America has faced a tide of anti-thrift. A century ago, loan sharks reaped huge profits making small loans at usurious interest rates. The most notorious practice was salary lending, a business that offered short-term, high-interest loans to wage earners as an "advance" on future wages. Salary lenders had been around since the Civil War, but the business expanded rapidly in an urbanizing America. By the early 20th century, nearly every major American city had a cluster of salary lenders, some part of large, multi-state chains. According to an estimate made in 1911, one out of five wage earners in cities with more than 30,000 people took out a salary loan in a year.

Two conditions spurred this phenomenal growth. The first was the growing market for consumer loans. As the population of the nation's industrial wage earners grew, so too did the need for cash to stretch their meager wages from payday to payday. Unlike farmers and small-business owners, wage earners were entirely dependent on the dollars in their pay packet to meet their family's needs. As one contemporary writer, Robert Kelso, put it, "The wage has not the certainty of food produced on the farm. . . . [T]he workingman's dollar has a way of depending on world finance to tell it how much food it will buy."

Nor could strapped wage earners turn to local banks. Most commercial banks did not make small personal loans, because it took just as much paperwork and investigation to establish the creditworthiness of an individual as it did of a business. Furthermore, existing state usury laws capped the amount of interest that could be charged on a personal loan at between 4 and 12 percent annually, with 6 percent being typical. Under such restrictive caps, bankers contended that they could not cover the costs of making small consumer loans and still turn a profit.

Salary lenders, on the other hand, faced few such obstacles. They needed little capital to start their business. Once established, they earned healthy profits from high-volume lending, frequent loan rollovers and usurious interest rates—plus late fees, protest fees, application fees, collection fees and other add-ons. Some of the big chains integrated the lending and collection businesses, thus generating another stream of revenue.

Of course, all this was technically illegal, but the prospect of huge profits far outweighed the small risk of being caught and punished. Besides, enforcement was difficult because lenders disguised usurious rates as fees and service charges, required borrowers to sign blank or partially completed contracts, and failed to give receipts for payments. And even in those infrequent cases when a lender was convicted of usury, the penalties were generally civil and mild, ranging from forfeiting the amount of usurious interest charged to suffering the loss of the principal plus interest.

But this was the Progressive Era, and a handful of reformers set out to combat the "loan sharking evil." They wanted to satisfy the growing need for consumer credit and shut down the loan sharks once and for all. To do so, they followed two very different strategies.

One strategy was to make the small-loan business more profitable for banks and other legal lending institutions. The reformers agreed with the bankers: Restrictive usury laws kept commercial lenders out of the consumer credit business and fed the growth of the illegal loan-sharking businesses. By raising the interest rate caps, reformers hoped to create an incentive for banks to drive the loan sharks out of the consumer lending business. The eventual legislation passed by most states by 1932, the Uniform Small Loan Law, raised the interest cap to 42 percent per year and prohibited fees or other add-on charges. It also required licensing and oversight by state agencies and provided consumer protections for the borrower (the lender was required to disclose fully the terms of loans and provide receipts for all payments).

A second strategy was to create a pro-thrift institution for working people: the credit union. Like usury law reform, the credit union sought to solve the loan-sharking problem by providing an alternative source of consumer credit to workers. Rather than trying to provide incentives to commercial banks to increase consumer lending, however, the credit union movement sought to institutionalize cooperative savings among wage earners themselves. The credit union wasn't intended as a competitor or imitator of the commercial lenders, or even as a charitable "remedial" lender. Instead, it offered something new: a local, nonprofit, democratically run entity whose first purpose was to provide its members with the incentives and opportunities to save and then, when necessary, to borrow from each other.

Although these two Progressive Era strategies grew out of very different assumptions and approaches, they complemented one another in quelling the spread of predatory lenders for most of the 20th century. The reform of usury laws, however, had a longer-term and wholly unintended consequence. As Christopher Peterson, a leading expert on usury law, has demonstrated, the higher interest allowed under the small loan laws diluted long-standing moral strictures against usurious lending. Legal principle and practice shifted from imposing strict limits on interest rates to introducing flexible and variable caps.

Once that happened, it became much more difficult to resist further deregulation. From the middle 20th century on, Peterson writes, "each state began to chart its own course", creating all kinds of exceptions and loopholes for consumer lending. Especially during the 1980s, amid deregulation and inflation, political pressure to weaken or eliminate usury laws grew. This climate in turn created a hospitable legal environment for the resurgence of a legal successor to the salary lending business—now called, of course, payday lending. The irony is hard to miss. The Progressive-era reform of usury laws, aimed at combating the first wave in the 20th century, helped open the door to the second great wave of predatory lenders in the 21st.

Compared to usury law reform, the credit union has turned out to be a more durable solution. For nearly a century, the credit union has served the small saver and investor. Today, more than

8,100 credit unions provide savings accounts, low-cost credit, financial education and investments for more than 86 million Americans.

The credit union model has been successful for at least four reasons. First, it began as a social movement and was fueled by the energy, commitment and sense of mission that is common to social movements. Second, it united two ideals: democratic economic cooperation and thrift, broadly understood as the wise use of resources for productive purposes. Third, it adopted an organizational model that applied a pro-thrift solution (cooperative savings) to a contemporary problem (predatory interest rates on consumer loans). Fourth, it was organized to fit the habits and routines of its members' daily lives. People did not come to the credit union; it came to the people.

Two Goals

These experiences and our current predicament recommend two goals: to renew thrift as an American value, and to create broadly democratic, pro-thrift institutions as alternatives to the current crop of anti-thrifts. Ultimately, these changes can only be achieved in the context of a social movement. We need, in sum, a National Thrift Initiative with a broad-based social sponsorship whose purpose would be to share ideas, incubate strategies and identify creative ways to promote thrift.

Based on American history and what's left of our common sense, we can identify candidate objectives.

Re-establish a public education campaign. During World War II, Americans saved at extraordinarily high rates—about 25 percent on average. This impressive display of thrift and sacrifice was driven primarily by the war, but it also had a more proximate source: The U.S. government, collaborating with civil society leaders, actively stressed the importance of saving for the war effort while also providing a specific new savings tool in the form of war bonds. Perhaps the time is right to re-establish a pro-thrift public education campaign. Similar campaigns to reduce drunk driving and smoking and to encourage seat belt use appear to have had a demonstrable impact on people's behavior in recent years. Why not thrift?

Challenge "consumer spending" as a main solution to economic problems. Whether it is a national security crisis like 9/11 or worrisome economic news, our leaders in recent years seem increasingly determined to insist on the catchall economic salve of prodigious consumer spending. Hence, for example, the 2008 tax rebate legislation. But this is, at best, partial and misleading advice in a society marked by dangerously high levels of debt and dangerously low levels of saving. Perhaps it is time to balance the message of more spending with a message of more saving and wealth building.

Create a thrift savings plan available to all Americans. Since 1986, the U.S. government's Thrift Savings Plan (TSP) has permitted Federal employees to build wealth and save for retirement by systematically placing a portion of their earnings into diversified stock-and-bond index funds. These funds are managed by an independent board, with oversight from the public and private sectors. The expense ratios on TSP funds are low (0.06 percent), making them cheaper than similar commercially run funds. Currently, the TSP boasts 3.7 million participants, manages assets of approximately $225 billion, and is widely viewed across the political spectrum as a major success. Federal policymakers and others should consider offering this same wealth-building opportunity to all working Americans.

Build new thrift institutions. New, community-based thrift institutions can stand as attractive alternatives to payday lenders and other anti-thrift institutions. If we are serious about confronting the debt culture, building these new institutions is our most urgent task. They must possess three core traits: Functionally, they must provide opportunities and incentives to save and offer credit at affordable costs for prudent purposes; structurally, they must be broadly democratic and organized as not-for-profit cooperative or mutual organizations; geographically, they must be accessible to low-income Americans.

Re-purpose the lottery. State lotteries are the most egregiously anti-thrift state-run institutions in America. Because lotteries typically enjoy broad support by politicians and the public, it would be hard, if not impossible, to outlaw these operations at present. But it is possible to re-purpose the lottery, at least in part, as a thrift-promoting institution. In every state lottery outlet in the United States, a customer should be able to purchase "savings" tickets as well as lottery tickets. In this way, a comprehensive public apparatus devoted to encouraging everyone to become a bettor would simultaneously become an apparatus devoted to encouraging everyone to become a saver. It ought to be an easy sell: “Every ticket wins!” because, in fact, every single savings ticket would improve the financial well-being of the purchaser.

There are many other such ideas out there, and nearly all deserve exploration, because a society in which ever more of us are over our heads in debt—a society in which a place like Bedford Falls seems no longer to exist, except in our fading collective memory—is unlikely to remain a thriving society for very long.

There is reason for hope. After all, our forebears a century ago met head on many of the same challenges we face today, and if they could succeed, there is no reason we cannot do so as well. Their success helped reinforce the virtues that made America great, and their foresight helped make it greater still. They left America and the world a better place. We should aspire to do no less.

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