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A THRIFTY IDEA

Forget Easy Money. Try Saving a Few Bucks.

By Ray Boshara *and* Phillip Longman

Countrywide Financial, the nation's largest mortgage lender, has a curious new idea — or, more precisely, an old one. No longer will it use wads of Chinese cash recycled through Wall Street to make subprime loans to unqualified borrowers. Instead, it will take in deposits from small savers and lend them out to people who might actually repay them — just like that humble thrift institution president George Bailey did in "It's a Wonderful Life."

Imagine: a bank that promotes thrift! This could be the start of something big. Writing recently in the American Banker, Eugene Ludwig, a former comptroller of the currency, advised financial institutions to stop relying "on the easy money that comes from wholesale funding" and to concentrate instead "on harder-to-get core deposits." How quaint. Remember when banks actually tried to instill the savings habit by going into schools and helping kids set up small passbook accounts? Today, the first experience most younger Americans have with a bank comes during freshman orientation at college, when they come across a table laden with giveaways and credit-card applications.

This return to thrift comes none too soon. Not since the Great Depression have so many Americans lost their homes in one year — and we're not even in a recession, at least not yet. But we're still on course to see 2 million foreclosures in 2007, afflicting one in 62 households. That's a 67 percent increase from 2006, according to RealtyTrac. The Federal Reserve's recent decision to cut its benchmark rate by half a point, while widely praised on Wall Street, will do little to stop the slide.

Also not since the Great Depression have Americans saved so little. Even with unemployment at historically low levels, Americans spent more than they earned in both 2005 and 2006 — and charged the difference. Household debt, not including mortgages, now eats up nearly 15 percent of disposable income — more than food and gasoline combined. One in seven families is dealing with a debt collector. Children today are more likely to live through their parents' bankruptcy than their parents' divorce. Americans' stunning lack of savings not only brings personal tragedy but also is causing the dollar to plummet against all major currencies, jeopardizing our economic growth and threatening the financial system worldwide.

What's going on? No doubt, some of us like to shop too much, but it's also true that the "fixed costs" of middle-class life have soared. Elizabeth Warren, a professor at Harvard Law School, shows that while family incomes have gone up in the past generation, the costs of health care, education, housing, child care and transportation have risen even higher.

Meanwhile, not only does the government itself borrow as though there were no tomorrow, primarily through unfunded health and pension plans, but it promotes what David Blankenhorn of the Institute for American Values calls "anti-thrift" institutions. Today, 41 states plus the District of Columbia and Puerto Rico run lotteries, and 11 states encourage casinos. Government has also allowed for the mainstreaming of other anti-thrift institutions — some charging annual interest of more than 500 percent — that once existed, if at all, only in the shadows of society. Payday lenders, rent-to-own stores, auto-title lenders, some franchise tax preparers and chain pawn shops are all now as common across the landscape of middle-class America as Applebee's.

After the terrorist attacks of 2001, President Bush told us that the patriotic thing to do was to shop. But Osama bin Laden is still out there, gas is more expensive than ever, the credit card is maxed out and our homes are depreciating. There's a better way: the old-fashioned virtue called thrift.

Historically, thrift didn't carry its current association of being cheap or stingy. Rather, it meant the wise use of resources. It meant an abhorrence of waste, whether of raw materials, time, energy or money. In short, it meant conservation.

To conserve money, working-class men and women banded together to create "thrift" institutions. Before these institutions were deregulated and taken over by the fast-buck crowd in the 1980s, they provided a staid but reliable vehicle for building a nation of "freeholding" middle-class homeowners and small-scale entrepreneurs. Most Americans understood, until the triumph of the anti-thrift institutions, that their own freedom from wage slavery — and, indeed, the civic health and wealth of the republic — depended on the savings habit and the widespread ownership of unencumbered small properties that it makes possible.

Today, by contrast, while many Americans understand the need to conserve energy and natural resources, they have trouble seeing what any of that has to do with credit cards and subprime mortgages. But conserving financial resources is not only still essential to individual liberty; it is also essential to moderating wasteful consumption and saving the environment.

Reviving the American thrift ethos won't be easy, and it will probably take at least a generation. But we can take some small steps now that would make saving easy, automatic and frequent. Our goal should be to generate new savers as well as new savings — in sharp contrast to current government policy, which allocates considerably more than $100 billion a year in tax breaks to high-income earners who would save anyway.

First, we should take advantage of one of the most powerful forces in human nature: inertia. Studies in behavioral economics show that when new hires have to opt *out* of a 401(k) retirement plan, as opposed to having to opt *in*, savings rates skyrocket. Also, building on the "Opportunity NYC" initiative (which is being privately funded by the Rockefeller Foundation, New York Mayor Michael R. Bloomberg and several other donors), governments, civic-minded corporations and philanthropies could make automatic savings deposits to individuals who engage in socially desirable behavior. Finish high school, volunteer in your community or buy an energy-efficient appliance, and your savings account receives a deposit.

Technology, if fully exploited, can also make the cost of maintaining a bank account far lower, thereby giving financial institutions a greater incentive to serve small savers and giving freedom to the "unbanked" poor from the gouging fees that payday lenders charge to cash checks. Imagine that your debit card is also an interest-paying savings card, to which your employer, the Internal Revenue Service and other entities can make automatic deposits. Some innovative firms are already offering such a product, which combines low cost with convenience and security.

Meanwhile, regulators should encourage more community-focused banks, credit unions and thrift institutions. These can resume their historical role of promoting thrift by helping customers become savers as well as (eventually) homeowners and small-business owners.

Congress should do its part as well. The bipartisan New Savers Act, for example, makes it easier to open bank accounts, buy savings bonds, put money away for college and receive financial education. Another bipartisan measure, the Automatic IRA Act, encourages automatic payroll deposits into IRAs. Other proposals authorize tax credits for low-income savers, as well as remove savings penalties for those on public assistance.

Finally, to usher in this "new thrift" across generations, Congress should establish a lifelong savings account for all children when they are born — a reality in Britain and elsewhere and an idea that's rapidly gaining bipartisan momentum in the United States.

If you're an American born in the 20th century, thrift probably strikes you as a musty, downscale word — reminiscent of used clothes, aged relatives who wrapped their sofas in plastic or perhaps the grandmother who saved Green Stamps. But it's worth remembering, as did generations of Americans struggling up from poverty and privation, that thrift is still the essential virtue that makes the American dream possible.

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