

COMMENT

THRIFTY AMERICANS AND SPLURGING CHINESE: AN OXYMORON? MAYBE NOT FOR MUCH LONGER!

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With The U.S.-induced economic crisis currently wreaking havoc on the world and worsening the plight of ever more people, thrift, the practice of being careful with money and not wasting things, is receiving ubiquitous governmental attention.

An often non-optional mode of existence in much of the world, though a long-forgotten one in other parts; revered as a virtue by a few and perceived as an affliction by most, the notion of thrift lends itself to a series of binary oppositions. This is especially true when applied to China and the United States.

While the U.S., with its proverbial gargantuan appetite for consumption, hardly conjures up visions of thrift, China still readily brings to mind images of cautious spenders, self-denying people leading a Spartan-like existence, in complete opposition to the sybaritic lifestyle, which most Americans aspire to and avidly pursue.

With the current emergence of a nouveau-riche class in the growing Chinese suburbs, however, this Sino-American dichotomy is starting to lose some of its evocative power and could soon become a thing of the past - a trend exacerbated by the current economic turmoil. Still, in spite of this newly-emerging middle class, the perception of China as a thrifty society and that of the United States as the epitome of consumerism and materialism endures; in many respects, rightly so. A few statistics will bring this point home.

Consumer spending makes up 35 percent of China's GDP. By contrast, retail activity in the United States is responsible for more than two thirds of the economy.² Here is another figure worth considering: on average, Americans stow away about 2 percent of their disposable income, a far cry from the Chinese, who save more than 25 percent, making them the world's most prodigious savers.³ Some farmers are even reported to save two thirds of their meager incomes and buy niceties only when their wives' nagging becomes intolerable; their occasional indulgences often limiting themselves to a TV screen or some consumer products, long deemed indispensable in the United States.⁴

All this, however, may soon change as the fierce recessionary onslaughts at both ends of the globe are blurring all traditional economic delineations. This is particularly true in the U.S., where the recession is undermining a lifestyle built on consuming, and, where the recent waves of massive lay-offs in the banking sector and auto industry, among others, have forced many to prune their spending. So much

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so, that for the first time since World War II, Americans are spending fewer dollars than they did a year earlier⁵. This reluctance – or, for some, inability – to spend has led to the sharpest rise in the savings rate seen in the United States since the government began calculating the statistics in the 1950s⁶. That rate rose to 5.7 percent in April 2009 and is expected to grow as Americans remain pessimistic about the country's economic outlook.⁷ According to David Rosenberg, the chief economist and strategist of a money management firm, "people's attitudes toward credit and home ownership are undergoing a fundamental shift."⁸

The sharpest decline in spending has been in the purchase of durable goods like cars and furniture as the demise of Chrysler and General Motors (GM) attests, not to mention Ford and a few other auto makers worldwide teetering on the brink of collapse or Circuit City, a nationwide iconic electronics retailer, recently forced to file for bankruptcy protection. Spending on nondurable goods like food and clothing is also down for the first time since the 1940s, an unmistakable indication of how severe the contraction has been.⁹ The present decline in spending, however, does not result from a collapse of income as the decrease in wages has been more than offset by lower tax collections and government transfer payments through stimulus measures.¹⁰ More significantly, it results from a shift in consumer behavior.

Indeed, the slumping economy is making those still employed pause and rethink their spending habits. This is a rude awakening for a generation of shoppers who grew up on easy credit access and never had to limit purchases to simply what they needed – or could afford. In short, thrift is gaining ground. First and foremost, out of necessity, but also, slowly and insidiously, out of choice. Going on a shopping spree, splurging on big ticket items may still sound like a lot of fun, but it is losing some of its luster, including among the well-offs. All the more as ecommerce, an ever more alluring substitute for the mall, keeps Americans e-shopping at home where they tend to be less impulsive buyers. Though unlikely to become an American art of living soon, frugality is taking hold of the collective mind.

Habits are also changing in China, albeit for different reasons and with opposite results. With the tremors of the economic and financial earthquakes felt throughout the globe, no country is spared and China, the world's second largest exporter, is no exception. Beijing has been forced to introduce a stimulus package of 4 trillion yuan, or US\$586 billion,¹¹ which includes a range of incentives, designed to get the parsimonious brethren of those rural dwellers to open their wallets. Short of turning China into the new Mecca of consumerism, the plan aims to create sustained domestic demand to compensate fast-plummeting exports. In essence, Chinese are asked to literally unstuff their mattresses (at least for a large portion of its 700 million rural residents) and spend their money on Chinese goods. Thrift, once an admirable quality here - and one on which Chinese pride themselves - is becoming a liability as the nation's export-driven economy is slowing down.

Still, getting the Chinese to open their purses, especially in a contracting economy, may be a tall order. Presently, it is the younger generation that holds the greatest promise for China's emerging consumer economy. Coming of age during the three-decade-long boom, they boast an unflinching confidence in the future. China's days of starvation are over. Like their postwar American counterparts, they have only known prosperity. Young urban consumers have no plan to change their spending habits and live by the penurious ways of their parents and grandparents. They want the best of everything and they want it now. For a country whose culture is rooted in the traditions of thousands of years, this is truly a

revolution. A new China, emulating the instant gratification-driven U.S., is thus emerging alongside the ancestral one, imbued in the traditional Confucian teaching of patience.

Another indication that China is aping the US propensity to buy now and pay later is the growth of credit cards. In 2005, there were 13 million credit cards, today that number has hit 115 million and most card holders are under 33.¹² In an unexpected twist of events, we may soon see a thriftier America and a splurging China.

For the moment, however, the savers still outnumber the spenders. The floodgates of personal consumption may have to await a market rise in wages. Nevertheless, with the prospect of its double-digit growth becoming a thing of the past, Chinese economists are looking to consumers to pick up some of the slack, at the very least, until Americans regain their ardor for shopping

Americans will no doubt regain some of their fervor for shopping. This is certainly true of those who have had to abruptly curtail spending and live within substantially diminished means, once they find employment again. The real issue is to what degree. Although buying and consuming have become part of the American national culture, it may not be at the levels of the last decades. Several recent developments buttress this argument.

Given the magnitude of the current economic doldrums and the fact that no one will come out of it unscathed, it is quite likely that the resultant long-lasting scars will bring about profound changes in Americans' spending behavior. If history is a guide and, as illustrated by the generation who grew up in the 1930's, once people experience deprivation, as relative as it may be, fears of a downturn down the road, and of what it may bring, will inhabit them, spurring some frugality. Today, although Americans largely identify with and define themselves by material objects and expenditures, they are stashing money away, a clear indication that consumer confidence is nose diving¹³ (as mentioned earlier, the savings rate rose to 5.7 percent in April 2009).

Moreover, this frugal trend also appears to have its roots in a slowly-emerging new approach to life; one in which traditional family values - and time spent together - are claiming more room; and one in which utmost consumerism no longer appears to be the panacea it once was. This trend is partly rooted in September 11, 2001 and the sudden realization, that what really matters, is well beyond the bounds of materialism. Everyone was then abruptly and dramatically reminded of the fragility of life and the ever present threats to it – the same way today, everyone is equally bluntly and painfully reminded of the ever present threats to his/her finances (e.g. the sub-prime crisis and Madoff scandal). With this realization and Americans' loss of confidence in the future - a major departure from their traditionally unshakable optimism - Americans' almost insatiable appetite for goods may have reached its apex.¹⁴

Compounding this US trend is President Obama's focus on environmental issues. Witness the semantics this past Christmas: *'going green for the holiday,' 'eco chic'*; new *eco* words keep being coined; words, which apart from denoting a more environment-friendly way of life, connote a subdued and more rational approach to consumption; less quantitative and more qualitative. Less is no longer taboo. Thus, the current downturn represents an opportunity to move away from 'irrational' and 'careless' consumerism toward becoming a more discerning consumer. U.S. buyers are showing a refreshing return to lucidity after mad years of excessive consumerism. The trend is still embryonic but the seeds have been planted.

More Americans are also seeking 'meaning' in their lives and, after their abundance is taken care of, have the luxury of time and money to do so; hence the rise in spiritual pursuits, whether in film, TV, or literature.

This new approach sharply contrasts with what Chinese are experiencing as they are being exposed to a whole new world of consumerism and the belief that what you are and who you are is driven by what you own. In effect, the reverse of what is happening in the United States.

Topping the 'must have' list in China is the automobile, which, much as everywhere else has become a status symbol. Urban China, embracing many of the American attitudes and modes of consumption, has put the car at the center of contemporary life. The ubiquity of the car is most visible in urban planning as older buildings are torn down to make room for tangles of Los-Angeles-like sprawling highways. As more Chinese take possession of steering wheels, suburban shopping malls have also mushroomed; luring ever more customers and further instilling American-like consuming habits.

The automobile represents a break with the past; in more than one way. It has become a symbol of freedom. Once unthinkable in a nation that still remembers how during the Cultural Revolution city dwellers were forcibly dispatched to the hinterlands to toil in the fields, the car takes a growing slice of nouveau riche urbanites into the countryside for the sheer pleasure of it

More significantly, it marks a departure from the country's decade-long collectively-imposed thrift, as Chinese are primed to buy icons of American capitalist success. As a recent headline in an international newspaper aptly stated in reference to the impending sale by GM of its Hummer division to a Chinese company,¹⁵ *'China Ready for Guzzling Hummer.'*¹⁶ It sure is.

Though the symbolically-charged sale might at first seem incongruous, that is just until one contemplates the realities of modern China. The sale of this gas-guzzling behemoth is not just an economic event. This is a cultural moment. In a country where the car has become a vessel for the Chinese dream it actually seems fitting that Hummer becomes a Chinese brand. While it is now perceived in the U.S. as a pastime vehicle and has become to be regarded – and shunned – as a sign of wasteful decadence – not to mention something that most Americans can no longer afford – this luxury vehicle is embraced by the wealthy and seen as a symbol of China's growing purchasing power and nascent splurging habits.

Clearly, with the Chinese government moving to impose fuel efficient standards that may end up being tougher than those in the U.S., the symbolic dimension of the deal is more significant than its likely economic impact as most car owners favor smaller and less expensive vehicles. Still, as the latest sign of China's rise and America's struggles, it is no accident that cash-rich China is taking possession of an icon of cash-depleted America. That, in a previously unimaginable and unfathomable move, GM; newly bankrupt and struggling to raise cash, agreed to sell its Hummer division signals the beginning of a new era: iconic US companies divesting themselves of some of their assets and Chinese ones on a buying spree, shopping around the world for bargains.

Witness the fate of GM: thriving in China, agonizing in the US. The global turndown has hammered the auto industry in the U.S. - and elsewhere - except in China, pushing carmakers to cut staff, lower

production, and delay new models and forcing GM (and Chrysler) to file for Chapter 11 protection. While every US-made model is falling sharply in sales in the U.S., shunned by an ever increasing number of Americans, sales of passenger cars in China - many of which are US models - have grown by 20 to 30 percent a year since 2005.¹⁷ And in January 2009, for the first time ever, monthly vehicles sales in China exceeded those in the United States.¹⁸

Finally - and of great momentous - China is also emulating the U.S. in yet another way. In the past, when the U.S. would falter, we would see the global growth evaporate. This is still largely true today. However, whereas, previously, stabilizing the world's economy and providing the impetus to recovery would mainly befall the United States, that role is now falling upon China's shoulders. Indeed, in yet another ironic twist of fate, the Chinese government has been tapped to save its economy - and that of the entire world - the same way in the past, the world would anxiously wait for the U.S. economy to recover so that they, in turn, could regain their economic strength. As Americans are tightening their belts, urging Chinese to spend money is taking on added urgency. Short of turning the whole nation into big spenders overnight, an unlikely development in the short-term, a less frugal China - and young spendthrift Chinese - appear to be the only viable responses to a thriftier America and the best short-term alternative to its current woes; one, however, that is heralding a new global dynamic.

Notes

2. *International Herald Tribune*, "In a crunch, Americans learn to save," May 19, 2009.
3. *The Wall Street Journal*, "China's hot growth eases, triggering a new debate," August 17, 2008.
4. *Ibid.*
5. *The Bangkok Post*, "American recession spurs 'survival panic' for some," November: 8, 2008.
6. *International Herald Tribune*, "In a crunch, Americans learn to save," May 19, 2009
7. *Ibid.*
8. Cited in the *International Herald Tribune*, *Ibid.*
9. Source: Bureau of Economic Analysis, cited in the *International Herald Tribune*, *Ibid.*
10. *Ibid.*
11. The Bt2.5 billion stimulus package was unveiled in November 2008, *The Bangkok Post*, "Protectionism will worsen crisis: China," December 13, 2008.
12. *The Wall Street Journal*, "China's hot growth eases, triggering a new debate," August 17, 2008.
13. *The Nation*, "Consumer sentiment plunges," October 19, 2008.
14. *Ibid.*
15. Hummer is set to become the property of Sichuan Tengzhong Heavy Industrial Machinery
16. *International Herald Tribune*, "China ready for guzzling Hummer," April 22, 2009.
17. *Ibid.*
18. *Ibid.*