How American consumers view debt: a case study

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A new study published this month suggests that while younger Americans are more smitten with credit cards and debt than older Americans, the older generation helps enable their children by encouraging use of credit as a "safety mechanism."

The findings were based on case studies conducted with 27 white, middle-class Americans in 2006. The researchers, Michelle Barnhart of Oregon State University and Lisa Peñaloza of Ecole des Hautes Etudes Commerciales du Nord of France, wanted to explore some of the attitudes, perceptions and cultural meanings behind how Americans view and use debt and credit that could have contributed to the economic recession.

The results, which include detailed interviews with participants, are currently available online and will be published in the December issue of the *Journal of Consumer Research*.

"The economic crash was not just about people being dumb or greedy," Barnhart said. "There are compelling forces out there that lead people to live lifestyles outside of their means."

In 2008 alone, Americans spent 9.3 percent of their income servicing debt. And in 2010, more than 24 percent of homes in the United States had an upside-down mortgage owing more than the homes were worth. Based on interviews conducted before the 2008 financial crisis, researchers found that even though consumers espouse that they should limit their debt, they take on significant debt because doing so has become normal. As one participant put it, taking on debt is "the American way."

Barnhart and Peñaloza's research yielded a few key findings, including:

- Americans suffer from a lack of financial literacy. Every participant said they had learned about credit card use and debt primarily through personal experience. Very few had received any training in school or at home, and most participants said they didn't discuss family finances with their children.

- Half of the participants had debt they were unable to pay and one-third of them were dealing with collection agencies.

- Participants often talked about credit as a measure of worth, noting that if they were approved for a certain loan they were "good enough for that car." Statements often indicated that approval for big-ticket items such as cars and homes were directly related to a value of the person.

- Those who had credit cards and paid them off each month tended to be older, and had higher incomes.

- Several of the younger participants in the study noted that they did not want to use credit, but felt they had to in order to finance cars and homes in the future. Most of the younger participants also were encouraged by their parents to have credit cards, and started using credit at a much younger age than those older than 50.

Barnhart, who is an assistant professor of marketing at OSU, said much of the research done on cultural behavior and attitudes leading up to the economic downturn has focused on ethnic minorities and low-income minorities. However, she said it has been some of the most educated and privileged of Americans who have engaged in risky financial behavior.

This case study, while a small sample, was able to ask detailed questions to probe into deeper issues within American society.

"Over time, credit card use and heavy debt has become normalized in our culture," she said. "Even though we say as a society, 'don't get in debt,' the overwhelming messages being sent out – from the way credit is used to approve or disapprove us for services to political leaders telling us to spend after a big disaster to prove our patriotism – all of this has created a culture of debt."

One of the few young participants to not carry any debt said she felt punished for her refusal to have a credit card. She was refused a cell phone, and had encountered embarrassing situations during business travel because she did not have a credit card. Barnhart said this system of penalizing consumers for not using credit is one of the problems.

"Your credit score is this big black box mystery," she said. "There are three companies in the entire country that control this information, and they make the rules and the equation is secret. So people are told to get credit cards, but not use them. For some, this is equivalent to filling your freezer with ice cream and telling you not to eat it."

Barnhart would like to next do a study about how norms, values, and habits have changed since the economic crisis. However, she said financial literacy is still the missing link in American society. She and Peñaloza believe that financial literacy classes should be required in schools, and that these classes should not only address credit card fees and compound interest, but also critique debt as a cultural value.

"It's easy to sit back and blame consumers for just spending too much, but the truth is we have an entire infrastructure set up to support, maintain and encourage credit card use and debt," Barnhart said. "I would love to see economics back in high school classes that addresses how to manage household finances. And firms need to step up. The 2010 credit card reform was a step in the right direction, but more needs to be done."

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