

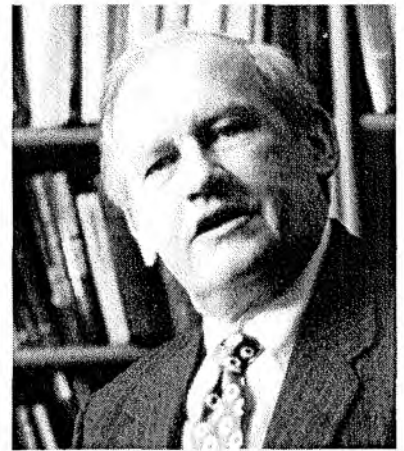
# FRANKLIN'S THRIFT

## *The Lost History of an American Virtue*

Second Annual Celebration of John Brandl's  
Uncommon Quest for Common Ground



Barbara Dafoe Whitehead



John Brandl

*Cosponsored by*

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UNIVERSITY OF MINNESOTA

*As an economist and dean of the Hubert H. Humphrey Institute of Public Affairs, John Brandl, who died in August 2008, was a distinguished scholar. As a member of the Minnesota House and later the state Senate, as well as a senior official in the Department of Health, Education & Welfare during the Johnson administration, he was a distinguished public servant. As a teacher, friend and colleague, his life of conviction, open-mindedness, and civility—all shared in equal and bountiful portions—bordered on the matchless.*

*In February 2010, four ideologically diverse Minnesota organizations joined together for our second annual celebration of Dr. Brandl's uncommon quest for common ground, in a program keynoted by the esteemed historian Barbara Dafoe Whitehead.*

*Welcoming many of John's admirers to what might be thought of as a right-center-left rite and remembrance was once again a joy and honor.*

Sean Kershaw  
Citizens League

Mitch Pearlstein  
American Experiment

Dane Smith  
Growth & Justice

Stephen B. Young  
Caux Round Table



# FRANKLIN'S THRIFT

## *The Lost History of an American Virtue*

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### Introduction

Everyone should have a favorite social historian and Barbara Dafoe Whitehead is mine and has been for a long time.

I've heard her described in recent weeks as a "conservative scholar." Dr. Whitehead can speak for herself, and I suspect she will. But in a spirit of the kind of collegial candor that John Brandl relished and lived for, I would describe her work as exquisitely moderate and measured.

The complication and rub, however, is that much of her research and writing over the last several decades have been about families, and this is one area where moderation and measure, somehow, are often reduced and ridiculed as conservative. Needless to say, I find this absurd. But also needless to say, today's ecumenical ground rules allow for only one ideological shot per host and that was mine, so on with the tamer portions of the introduction.

While she had been writing for national audiences earlier, it's probably fair to say that Dr. Whitehead first came to truly significant national attention in April 1993 when the *Atlantic Monthly* published her essay "Dan Quayle was Right," a path-breaking cover story about family breakdown that went on to win prizes from right-wing hotspots such as Radcliffe.

Sorry, I guess I just did it again.

Other major publications over the years have included books such as *The Divorce Culture: Rethinking Our Commitments to Marriage and Family*, and *Why There are No Good Men Left: The Romantic Plight of the New Single Woman*.

I have worked most closely with her for almost 20 years in her assignments at the Institute for American Values in New York and the National Marriage Project at Rutgers, the second of which she served as co-director along with sociologist David



Popenoe. Barbara and Professor Popenoe, in fact, were special guest editors for one of the best things American Experiment has ever published, a 2001 symposium featuring almost 20 writers, including the University of Minnesota's Bill Doherty, on making marriage more child centered.

Dr. Whitehead is a native of down the road in Appleton, Wisconsin. She did her undergraduate work at Madison; served as a Woodrow Wilson Fellow at Columbia, and earned her master's and doctorate, the latter in American social history, from the University of Chicago. She and her husband Ralph live in Amherst, Massachusetts. They have three grown children scattered on both sides of the Atlantic.

Her current work under the continuing auspices of the Institute for American Values—led by another great colleague and friend, David Blankenhorn—represents an interesting departure from the more familial work she is best known for. I trust she will let us know what led her to write *Franklin's Thrift: The Lost History of an American Virtue* (in conjunction with David and Sorcha Brophy-Warren).

I might note here that still another David—columnist David Brooks this time—described an excerpted chapter of the book as “one of the most important think tank reports you’ll read this year.”

True, he also said such compliment might be viewed as “damning with faint praise,” but it was an exceptionally nice thing for him to write, nonetheless.

Beyond the book itself, I likewise trust that Dr. Whitehead will discuss the compelling liberal, moderate, and conservative reasons—which is to say, Brandlesque reasons—why she chose to head up the Institute's John Templeton Center for Thrift and Generosity.

On behalf of my colleagues Steve Young at the Caux Round Table, Sean Kershaw at the Citizens League, Dane Smith at Growth & Justice, and Dean J. Brian Atwood and others at the Humphrey Institute, please welcome one of my all-time favorite public intellectuals and pals, Barbara Dafoe Whitehead.

**Mitch Pearlstein**  
**Founder & President**  
**American Experiment**

**Humphrey Institute of**  
**Public Affairs**  
**February 17, 2010**

**Barbara Dafoe Whitehead:** I am deeply honored to join in this celebration of John Brandl's life and legacy. Though I never had the pleasure of meeting Professor Brandl, I have been inspired by reading about him. It is good to see that a new generation of Brandl scholars will carry on his legacy of public service.

Much of the national public debate over the past year has focused on the world of high finance and the big global institutions that have contributed to widespread economic distress.

What I want to focus on today, however, is the world of *low* finance and the local and state-level institutions that have contributed to ordinary Americans' economic distress.

Here is my argument in a nutshell: For much of the 20th Century, we had an institutional culture of thrift. In the 21st Century, however, we have built an institutional culture of *dis*-savings and debt. The institutional culture of debt has hurt all of us, but it has been most devastating for lower-income Americans who lack the broad range of savings and investment opportunities that upper-income Americans enjoy.

This shift from thrift to debt is a contemporary development but its main theme is beautifully captured in Frank Capra's 1946 classic movie, *It's A Wonderful Life*.

Almost everyone has seen the movie at least once. As you may recall, it is set in the small upstate New York town of Bedford Falls just after the end of World War One. It features George Bailey (played by Jimmy Stewart), a young man who dreams of escaping small town life, but instead has had to give up his dreams to keep the family's Building and Loan from being taken over by the greedy fat cat banker, Mr. Potter.

*It's A Wonderful Life* is usually shown during the holiday season at a time when Americans are engaging in their annual year-end buying binge. People think of it as a "feel-good" movie. But in fact, much of the movie is very dark. It includes personal disappointments, near-fatal accidents, and a suicide attempt.

One of the movie's darkest moments comes after George, who has just been saved from committing suicide, is shown a vision of what his town would have been like if he had never been born. In this vision, Mr. Potter has long since driven Bailey's Building and Loan out of business and taken over the town. Bedford Falls has turned into Pottersville. The family-owned shops on Main Street have disappeared. Main Street has turned into a neon-lit jungle of seedy dives, pawnshops, strip tease joints and loan sharking outfits. The hard working people of Pottersville can't afford to buy homes; they live in shacks; their families are falling apart; they're bitter and disaffected.

Fortunately, this vision of the future is only a bad dream. George comes to his senses and returns home to find that Bedford Falls still exists and that all the good townspeople who have patronized Bailey's Building and Loan have banded together to save the family-run institution from Mr. Potter.

The movie is only a movie, of course, but it isn't pure fantasy. Institutions like Bailey's Building and Loan were very much a part of the institutional landscape of post-war America, released as it was in 1946. The building and loan was a thrift institution. It was a quasi-public cooperative that helped working men and women pool their resources and buy houses. And building and loans were not the only thrift institutions at that time. Many communities, especially in the Northeast and Midwest, had local retail banks, mutual savings banks, credit unions, savings clubs, payday savings plans, and school savings bond programs. Millions of Americans relied on these institutions to buy houses, educate their children, and build a nest egg for the future.

These financial institutions were broadly democratic. They made it easy for almost everyone—including kids—to save. People in the mid-1940s saved 25 percent of their after-tax income and for the next three decades, even as consumer spending grew, families continued to save. In the early 1980s, Americans were saving 11 percent of their after tax income.

But by the 1990s, this pro-thrift financial world had begun to disappear. Small banks got swallowed up by big banks; big banks moved uptown and upscale. Large financial institutions catered to upper-income Americans and left lower-income Americans behind.

As the thrift institutions moved out, new institutions have moved into the malls and Main Streets of America. These new outfits are not local institutions. They are big out-of-town franchise operations. And they are not thrift institutions; anything but. Indeed, they can best be described as anti-thrift institutions. They make their profits by selling credit at absurdly high interest rates of 300-500 percent APR, often with lots of add-on fees and penalties. Such anti-thrift institutions are part of a financial service sector that includes payday lenders, auto title lenders, advance refund tax preparers, subprime mortgage brokers, and subprime credit card issuers.



Their customers are Americans who live on the financial edge—from paycheck to paycheck with no savings cushion to help them deal with unexpected expenses. So when the car breaks down or when rent is overdue, they go to the payday lender for a high-priced loan or sign up for yet another credit card with a zero-percent teaser rate. As a consequence, cash-strapped Americans have become dependent on expensive credit and too many get trapped in debt.

This transformation in the financial landscape was occurring all across America in the 1990s. Payday lending alone grew to a multibillion dollar business. But for many of us—including me—this transformation in the financial landscape was invisible. The reason was simple. People who were fortunate to have good jobs and 401(k)s or other ways to save for the future, were not in the market for a predatory loan.

For me, it took a Pottersville experience to really see how much the financial landscape had changed. It happened when I made one of my frequent trips back to Appleton, Wisconsin where I grew up in the 1950s. (I like to say that I was a middle-class kid who grew up in the Midwest in the middle of the 20th Century.)

Appleton is my Bedford Falls. When I was a kid, Wisconsin Avenue was my Main Street. It was a major retail street with lots of family-owned local bakeries, restaurants, drugstores, banks, gas stations, dry cleaners, and grocery stores. I can close my eyes and still recite some of the names: Lappen's Bike Shop, Bestler's Bakery, Unmuth's Drug Store, Northside Dry Goods, Christie's Service Station, Krambo's grocery store. You could get almost everything you needed on Wisconsin Avenue, and most of the family-owned businesses knew your family.

But a few years ago, when I went back, I noticed that new establishments with names like The Cash Store, Check N'Go, and Cash Advance had moved

onto Wisconsin Avenue. These storefronts had the familiar franchise architecture of a McDonalds or Burger King—except they were not promoting fast food. They were promoting “fast cash.” I went to the library to look in the City Directory. I wanted to find out when they had moved into town. There were no payday lenders until the late 1990s. Then, suddenly, fifteen appeared within the city limits in a short space of time.

That's when I began to pay attention. I began to see what had been invisible as a visible and growing threat to communities and to the majority of citizens who used to make up a population of “small savers.” Small savers were being turned into habitual borrowers and debtors.

As I looked around, I realized that these private institutions weren't the only new anti-thrift institution on the block. A *public* anti-thrift institution had moved into town and set up shop in mini-marts, bars, and grocery stores. This public anti-thrift is the state lottery. For 70 years, from the late 1890s to the mid-1960s, lotteries were illegal in every state in the union. Today, they are present in 43 states plus Washington, DC.

State lotteries do not lend money at predatory interest rates, *of course*, but they do something equally deserving of the name “anti-thrift.” They take dollars from low-income Americans and promise instant riches in return.

Millions of Americans who see their dreams and their jobs slipping away now think that the lottery is the best way to get ahead. More than one in five Americans in a recent survey say that playing the lottery is the most practical strategy for saving for retirement.

For many Americans, the lottery is now the most visible face of state government. And while people mistrust other government institutions, they trust the lottery to make their fortunes.

This is because the state promotes its lottery with round-the-clock advertising. And what does the advertising say? It doesn't say: Buy a savings bond. It says: Buy a scratcher. It doesn't say: small savings will build your nestegg over time. It says small bets bring instant wealth.

Benjamin Franklin, the great popularizer of thrift, saw thrift as freedom. He believed that thrift would free people from servitude to debt. But the lottery turns this classic idea of thrift upside down. It doesn't say: Thrift will set you free. It says: Powerball will set you free.

So the big problem here, as I see it, is not just financial. It's cultural. The lottery is selling a fraudulent idea of freedom. It is peddling the fantasy of Fast Cash. Free Money. Instant Millions.

These ideas lead us down the path of what *New York Times* columnist David Brooks calls financial decadence. Financial decadence was a big worry for our founders, who saw the huge gulf between the rich and the poor in European societies. For men like Adams and Franklin and even the famously spendthrift Jefferson, both the very rich and the very poor were susceptible to financial decadence.

The rich were susceptible to decadence because they didn't have to work and had a lot of money to throw away on a lifetime of pleasures. The poor were susceptible to decadence because they couldn't find work and whatever money they had they spent on things that would give them a moment or two of pleasure.

Franklin defined thrift as three things: productive work, regular savings, and stewardship of resources. He saw thrift as the economic foundation of a new kind of society. This new society was made up of people who were not born into great wealth or desperate poverty but came from the middling ranks.

And for generations, thrift has remained a core

value of an aspiring middle-class society. It has been central to bringing new people into the economic mainstream. During the 19th and 20th centuries, thrift inspired the creation of nonprofit savings cooperatives like building and loans and credit unions to serve immigrants, women, and the working poor who otherwise were victimized by loan sharks and salary lenders and con artists.

Thrift has always had its detractors. Mark Twain famously said that thrift was invented to ruin the fun of generations of schoolboys.

And over time, thrift has gone through ups and downs, including hard times and good times. In 2005, during the boom years, when the savings rate dropped to almost zero, thrift was an obsolete practice. I remember eminent scholars telling me then that America had moved past thrift and had entered a new "post-thrift era."

But thrift never entirely disappears as an American value and practice. Today thrift is back. It's popular again. Our challenge is to make sure that the current popularity of thrift is sustainable. And the way to do that, I believe, is to revitalize an *institutional* culture of thrift.

Let me say—perhaps a bit belatedly—why institutions are important. We see ourselves as a society of free individuals. We believe in freedom of choice and personal responsibility. And ultimately individuals are responsible for the personal choices they make. That is both the burden and opportunity of freedom.

But for almost any social behavior to be sustained over time, you need institutions. That's because institutions are "commitment-keepers." They help us stick to a plan when we are tempted to give up or act against our own long-term best interests.

Think about exercising. If you do it alone, you can get bored or discouraged or unmotivated. But if you



join a group or promise to walk with a friend, you're more likely to stick to it.

So what do we have to do to revitalize an institutional culture that encourages savings and thrift?

One obvious step is to minimize the harms and depredations of the anti-thrift institutions. States can play a key role here. For example, a number of states have set a 36-percent-interest-rate cap on payday loans. States could also limit the heavy promotion of lottery and other gambling products and offer truth in advertising, such as publicizing in all their promotions the infinitesimal odds of winning big. Yet another interesting policy proposal is to introduce a savings ticket feature into the sale of lottery tickets.

But the more important step is to build up pro-thrift institutions that serve moderate- to low-income Americans. Not everyone can build a nest-egg through E\*Trade or brokerage accounts. But many more Americans would be able to build a nest-egg if pro-thrift institutions were available to help them

do so. Happily, the model for such institutions already exists. It has been developed by anti-thrift institutions. By that, I mean that the lotteries and payday lenders and other anti-thrift institutions have figured out exactly how to attract broad customer base among lower-income Americans.

- They are convenient and easy to get to.
- They advertise like crazy.
- They offer rewards to their customers.
- They establish face-to-face relationships with their customers.
- And they have low barriers to entry.

The challenge for the future is to make sure that pro-thrift institutions can win out over the anti-thrift institutions as the favored pathway to getting ahead for American families. ■