



There is No Paradox of Thrift

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As we formerly spendthrift Americans, prodded and frightened by economic hard times, are once again considering the possibilities of thrift, an old specter still haunts us. This specter is the "paradox of thrift." The basic idea is simple enough. The ethic of thrift, while seeming to be wise and rational for the individual, can become unwise and harmful for society. Behavior that seems good for the individual can hurt the group.

This idea has a long history, and finds expression in all economic weathers. But during economic downturns and hard times, the claim that thrift is paradoxical tends to become particularly loud, and boldly expressed.

It's certainly hard to miss this message these days in the United States. When U.S. household savings, after stagnating for years at rates approaching zero, recently registered a modest uptick, the headline in the *Wall Street Journal* warned: "Hard-Hit Families Finally Start Saving, Aggravating Nation's Economic Woes." The *New York Times* recently ran a story on what a University of California professor quoted in the piece calls "a re-emergence of thrift as a value." Sound pretty good? Not so fast! Being thrifty, the *Times* informs us, can lead to a big social problem: "Indeed, economists call it the Paradox of Thrift." According to one of the people interviewed: "If everyone followed this advice, it would be catastrophic for the economy."

Another recent story in the *New York Times* makes the same point a bit more soberly: "Putting away money and paying down debt may be good for one family's kitchen-table economics, but the broader economy suffers in the short run when millions of families do it." Based on exactly this idea, a very stem-looking Uncle Sam peers out from a recent cover of *Newsweek*, pointing his finger at us and issuing this patriotic appeal: "I Want YOU to Start Spending!"

Gosh, if spending ourselves ever deeper into debt is the patriotic thing to do, then surely we Americans already rank as among the most patriotic people on earth!

Was that your thought, too? Are you perhaps thinking that we Americans have already been patriotic enough, along these lines? After years of rushing to the mall to max out every credit card that the trigger-happy credit card companies sent us – and they sent a lot! – while saving hardly a dime and exhibiting about as much forethought as sailors on shore leave, and now with the sudden advent of the direst economic news since the Great Depression, are you perhaps thinking that today might be a good time for you to forgo that new flat-screen TV, and maybe try to put a buck or two into a savings account? Live within your means, and all that? Well, think again! According to the commentators, you are ill-informed. According to the *Wall Street Journal* and the *New York Times* and *Newsweek*, that's exactly the kind of behavior that will get us all into even deeper trouble!

But wait. What if the commentators are wrong? What if there *is* no paradox of thrift? What if, when all is said and done, smart is always smart, and foolish is always foolish? What if the

true and only paradox here is the fact of presumably informed commentators repeatedly and wrongly telling us that yet more stupid behavior with our money is exactly what the path of wisdom requires? *That*, gentle reader, is the paradox that requires our attention.

The Case for "Noble Sin"

As long as people have been arguing about economics, people have been arguing about whether thrift is essentially a blessing or a curse for society, and whether private excess in the uses of money can produce a public good. In his *Discourse on Trade*, in 1690, Nicholas Barbon declares: "Prodigality is a vice that is prejudicial to the Man, but not to trade." In 1714, in his famous *Fable of the Bees*, Bernard Mandeville roughly dismisses frugality as "a mean starving virtue" and carefully praises prodigality, or excess, as "a noble sin." Why is it noble? Because private economic excess stimulates the economy! (Does any of this sound familiar?) Mandeville tells us plainly: "Prodigality has a thousand inventions to keep people from sitting still that frugality would never think of ..."

In modern times, the claim that thrift can be paradoxical finds its greatest champion in John Maynard Keynes, arguably the most influential economist of the 20th century. In probably his most important book, *A Treatise on Money*, published in 1930, Keynes argues, sounding very much like Mandeville, that "mere abstinence is not enough by itself to build cities or drain fens...." Here is his basic proposition:

If Enterprise is afoot, wealth accumulates whatever may be happening to Thrift; and if Enterprise is asleep, wealth decays whatever Thrift may be doing. Thus, Thrift may be the handmaiden of Enterprise. But equally she may not. And, perhaps, even usually she is not.

That same year, in a radio address to the British people on ways to fight back against the oncoming Great Depression, Keynes could not have expressed himself more clearly regarding the futility of saving and the wisdom of greater consumer spending. Sometimes, he explains, saving one's money is "quite right," but at other times, including the present one, saving is "utterly harmful and misguided." He bluntly warns his fellow citizens: "The best guess I can make is whenever you save five shillings, you put a man out of work for a day." He concludes (much like Uncle Sam on our recent U.S. *Newsweek* cover) with an appeal to patriotism:

Therefore, O patriotic housewives, sally out tomorrow early into the streets and go to the wonderful sales which are everywhere advertised. You will do yourselves good ... [and you will] have the added joy that you are increasing employment, adding to the wealth of the country because you are setting on foot useful activities, bringing a chance and a hope to Lancashire, Yorkshire, and Belfast.

Of course, when writing for policy makers and professional economists, Keynes and his followers spell out this idea in more formal terms. In brief, and usually under the warning label of “paradox of thrift,” they posit that whenever a nation's desire to save exceeds productive investment, the result is a savings glut, or an excess of savings. These excess savings, because they are not smoothly transposed into investments, are therefore effectively quarantined from normal economic life, much as if the savers had simply hoarded the money, or hidden their savings under their floor boards. This phenomenon in turn can help to trigger a downward economic spiral, a sort of negative feedback loop in which reduced consumer spending causes greater unemployment, and greater unemployment in turn causes reduced spending, and so on. In the end, everyone – including the well-meaning chap who saved the five shillings in the first place – comes out poorer.

Finally, periods of economic downturn, when people's natural concern for the future may cause them to try to save more, are not only the periods in which savings gluts are most likely to appear; they are also precisely the periods in which savings gluts can do the most damage to society, by deepening rather than counteracting the downward turn in the business cycle.

Particularly since Keynes, this basic proposition that thrift can be paradoxical has grown deep roots in American society. Not only does it continue to interest and influence each generation of policy makers and commentators, but even more broadly, among the general public, there has clearly developed the widespread notion that, in order to keep the economy growing, American citizens have a general and almost patriotic duty, whatever else may be going on, to *keep on spending*.

Thus President Bush, immediately after 9/11, both reassuring and specifically reminding Americans that we need to continue to shop. Thus any number of commentators, even during the recent boom years, and even as the U.S. as a society began to register a *negative* savings rate, insisting that the saving going on in *other* nations, such as China, constitutes a kind of global savings glut that not only permits, but also basically requires, already way-over-their-heads-indebt U.S. consumers to – you guessed it! – *keep on spending*. Thus the current articles in the *New York Times* and the *Wall Street Journal*, and thus Uncle Sam on the cover of *Newsweek* virtually ordering Americans to “Start Spending!”

So let's take stock. Deep roots? Yes. A distinguished pedigree? Certainly. A prescription for behavior – *keep on spending!* – that is easily understood and not immediately unpleasant? Clearly.

But there is one more thing. Is it true? Is there actually something paradoxical about thrift that at least sometimes makes it more a curse than a blessing for society?

I believe that it is *not* true. I don't even think it's a close call. There is no paradox of thrift. Not today, not yesterday, not ever. There are five reasons why. Let's consider them in ascending level of importance.

5. **Today in the United States, saved money is likely to be productive money.**

Is it possible to save too much? Of course it is. If you are denying your children adequate food or medicine, or endangering your own health, in order to allocate more of your income to savings, you are almost certainly saving too much.

Perhaps there are a few such over-savers in the U.S. today. On the other hand, I have yet to meet one of them. Have you? If there are any out there, they certainly don't constitute a large enough group to affect any of our national statistics.

In fact, Americans have never been particularly zealous about saving their money. Over the last eight decades, the personal savings rate in the U.S. – calculated as the difference between earnings and expenditures – averaged about 7 percent. In the early 1950s, it was a bit higher than 8 percent, and by the early 1980s, it had reached about 11 percent. Then began a long, steep decline. Several years ago, during the height of the go-go era, just as household debt as a proportion of gross domestic product was reaching an all-time high, the U.S. personal savings rate had sunk virtually to zero or even below zero.

Over the past few months, as the economic horizons have rapidly darkened, the U.S. personal savings rate has climbed back to about 3 percent. That's still quite low! By the end of the year, according to some economists, it may reach 7 or 8 percent. In other words, if current trends continue, we may by 2010 be saving at about the same rate that we as a society have been saving since 1930.

Does any of this sound to you like dangerous over-saving? It doesn't to me. To me, it sounds instead like we Americans are now doing exactly the right thing – not just for ourselves as individuals and households, but for our nation.

After all, robust savings are essential for our long-term economic health. Why? Because investments, which are the life blood of a thriving economy, can *only* come from money that has been diverted from consumption (that is, saved). There is literally no other way for investment to occur.

That's why economists overwhelmingly agree that a high-debt, zero-saving society is a society that has put itself at great risk. For a time, it may be possible to live the high life on borrowed money. (We've just seen how that can work!) And for a time, and similarly, it may be possible to have other nations largely finance our ever-growing debts, allowing us simply to kick the can down road while continuing to shop as if there is no tomorrow.

But these trends, are we all are now painfully realizing, are ultimately unsustainable. Over time, a thriving economy and a successful society require citizens who are willing and able to save for the future. No matter how often, or how cleverly, we seek solace in the concept of "paradox," this fundamental fact will not change.

And what of the phenomenon, as spelled out by Keynes and others, of a savings glut, such that our desire to save overwhelms our willingness to invest? Is that a theoretical danger? Of course it is. Is it actually happening today in the United States? The weight of evidence seems to suggest that it is not. Is it likely to grow into a problem in the foreseeable future? No.

In recent months, of course, we have experienced a serious crisis in our banking and finance sector. That crisis – which may already be easing – appears at least to some degree to have unnaturally frozen the normal flow of credit in our society. Relatedly, there also appears to be a hesitancy and sense of caution among many investors.

But no one, to the best of my knowledge, is seriously suggesting that this problem should or can be solved by driving the personal savings rate back down to zero or below zero, or by returning to the practice of buying stuff with money that we don't have. After all, if that were the working solution, there would never have been a crisis in the first place!

According to most analysts, the basic source of our finance crisis is enormously large, interlocking, and ultimately toxic structures of debt. The crisis certainly wasn't caused by people who save too much. And if piled-up consumer debt is part of the problem, as it seems to be, it's doubtful that running up still more consumer debt can be anything other than a chimerical solution.

In fact, it's much more likely that the true solution lies in exactly the opposite direction. An 8 or 9 percent personal savings rate in 2010, such that American households can reduce their debt and begin again to live within their means, might actually help to ameliorate the banking crisis, insofar as it would once again position millions of American individuals and families to become savers, investors, and wealth-builders over the long run.

More broadly, if we bracket for a moment the immediate and probably short-term failures in our banking system, and instead take a longer view, the danger of a genuine American savings glut-desired savings in excess of productive investment - appears to be all but non-existent.

Fundamentally, our economy is wide-open and extremely dynamic. We value, and frequently reward, risk-taking and entrepreneurialism. Stand on any Main Street in any American town, and you can hardly throw a brick without hitting someone who is itching to start a new business, make a new product, try out a new idea, risk all to follow a dream, build a better mouse trap. People around the world admire us (and occasionally despise us), and many of them end up coming here, for precisely these reasons. Is it likely, under any reasonably foreseeable circumstances, that this deeply-rooted American characteristic will disappear, or turn into its opposite, such that we suddenly have too many saved dollars chasing too few new challenges and new ideas? It is not likely. In America, saved money will typically be productive money.

In sum, there seem to be no compelling reasons, paradoxical or otherwise, to believe that American today are saving too much, or at the wrong time, or in the wrong way, and several

good reasons to believe that an above-zero personal savings rate, and even a 9 or 10 percent personal savings rate, will amount to a good step forward for American families and for our nation as a whole.

By the way, if you are looking for the strongest possible arguments about the dangers of hoarding money, or of behaving as if saving your money is an end in itself, and should therefore take priority over human flourishing, you need look no further than the countless books, school curricula, sermons, and educational and inspirational lectures that have been produced over the decades by America's leading proponents of thrift. Yes, that's right. "Thrift" is not even close to being a synonym for "saving." This rather basic fact, to which we'll return later, should give you a clue. When it come to making plain why there is nothing paradoxical about thrift, examining the topic of saving money is only a warm-up.

4. For individuals and families, it's always wise to live within your means.

Let's now turn to spending. Imagine that you are a 27-year-old woman from Missouri, a graduate of community college, currently working as a sales representative for one of the big greeting card companies. You recently got married. Your husband also works in corporate sales. The two of you had a combined income last year of \$84,000. You do not have children, but you hope to change that situation in the next year or so. You do not own your home, but owning a home one day is one of your dreams.

You and your husband eat out a lot. You enjoy travel. Between the two of you, you possess five credit cards, with a current total balance running at about \$11,500. (Last year at this time, the total balance was about \$9,000.) Some months, you try to pay down some of the principal, but for most of this past year, the two of you felt that you could only afford to pay the minimums, or the carrying charges. Your husband also still owes about \$16,000 on his student loans. Sometimes, when something unexpected arises, you borrow money from your parents. Usually you pay them back, when you can, but not always. You and your husband, together, currently have about \$700 in the bank.

The details vary, of course, but this basic financial portrait of a young middle-class American is anything but atypical.

How well does this young citizen appear to be managing her spending? Does she seem overall to be spending too much each month, not enough, or pretty much the right amount?

Plainly, the right answer is that she and her husband are *spending too much*. They have good jobs, a reasonable income, and no children, and yet they appear to be spending nearly every penny they have on short-term consumption, while still managing each month to dig themselves a bit further into debt. And if we project this young couple's current financial patterns even a few years into the future, we are almost surely looking – unless one of them

inherits a fortune, or wins mega-millions playing the lottery – at a major, painful family financial crisis.

But now let's add a new wrinkle. Let's say that, in addition to everything else that is affecting our young friends, all of a sudden the economy starts turning bad. Sales are declining. The economic forecasts are grim. Thankfully, this woman and her husband still have their jobs, but they are worried, and with good reason, since lay-offs and cut-backs are already taking place in both of their companies.

As a consequence, they begin to make some changes. The nice vacation that they had been planning – they were intending to put most of the expenses on their credit cards – is now on hold. They are trying to eat out less. They are cutting back on entertainment. In general, they are trying to be more financially careful.

Is this couple doing the right thing? More broadly, if you are an American policy maker, or a commentator in the media, are you cheering for this young couple and others like them as they try to reign in their expenses? Or instead, are you glumly wringing your hands and publicly describing their decisions as a paradox?

It seems plain to me that the couple is doing the right thing, both for themselves and for their nation. No matter where or how hard I look, I cannot detect a hint – not even a faint whiff! – of paradox.

To list the ways in which our young friend is helping herself and her family – to explain why her parents, from whom she has been borrowing money, must certainly be pleased with her current gestures in the direction of financial carefulness – would be to belabor the obvious. But is she hurting her society by helping herself in this particular way? Is she failing to consider, in the economic sphere, her patriotic responsibilities? Do she and her husband need a better understanding of the complexities of paradox?

No. Quite the opposite. Not only does she require no tutoring on the topic of paradox, she and her husband can be quite confident that, even and especially in these difficult economic times, their modest turn toward thrift is *good for their society*. Why? Because it is a valuable elixir for our national economy whenever an individual or household takes steps toward becoming a producer of wealth rather than merely a consumer and borrower of it.

If our young couple can turn around their household finances through the practice of thrift – if they can learn to live within their means, pay down their debts, stop giving away big chunks of their income each year to credit card companies, have a financial plan – all kinds of productive and pro-social things will begin to happen.

First and foremost, *they will become richer*. Now may be a good time to point out that, when all is said and done, that's the central point of thrift! It's no coincidence, for example, that the most beloved and frequently quoted book on thrift in the history of the world, written by America's own Benjamin Franklin, is entitled *The Way to Wealth*. It's almost a mathematical certainty that, if our young friends practice thrift over time – and if they avoid getting struck

by lightning or run over by a truck – they will get richer. In all likelihood, they will get significantly richer.

Over time, richer people tend to spend *much* more money than do just-scraping-by and debt burdened people. So if we want more consumer spending, thrift is the main and ultimately only way to get there. People who build wealth over time through thrift also are less likely to depend on other people to support them, and more likely to be in a position to help other people in need. They also tend to accumulate more economic assets and more savings, which in turn become investments in the economy, which in turn promote economic growth and development. They also tend to pay more taxes. All of these things are stimulative for our economy and good for our society.

For these reasons, by taking steps to get their financial act together in a time of economic difficulty, our young friends are not only acting wisely, they are acting patriotically. They are not our problem today; they are our solution. We certainly have no business chastising them, or pleading with them to take that credit-card-financed vacation anyway, on the grounds that as they sink ever deeper into debt, society will paradoxically benefit. Not true! We should encourage them in their new-found thrift, and hope that others emulate them. For my money, they should be on the cover of next week's *Newsweek*, with Uncle Sam gratefully smiling at them.

3. Governments, not individuals or families, are responsible for any deficit spending that may be needed to moderate economic downturns.

Is it true that a sudden drop in spending can reduce demand for goods and services and therefore lead to more unemployment? Yes.

Is it true that this phenomenon may worsen, rather than help to reverse, an economic downturn? Almost certainly true.

Is it therefore also true that wise policy makers may wish, in the short term, to engage in deficit spending during economic downturns in order to stimulate demand, boost employment, and generally moderate the effects of the downturn? In my (non-specialist) opinion, probably true.

But so what? There is nothing unthriftly about these ideas, just as there is nothing paradoxical about them.

Neoclassical economic theory has long taught that, in a downturn, government may properly engage in deficit spending (that is, the government spends more than it takes in through taxes), just as it has also taught that, in boom years, a wise government is one that builds up a surplus (that is, spends less than it takes in through taxes). Keynes himself, and in my view much to his credit, contributed importantly to this idea. One happy – and quite thrifty – result of this economic model is a balanced budget over the course of the business cycle. Another is

that, as this process unfolds, we get calculated doses of fiscal restraint to help keep the economy from overheating during upturns, and calculated doses of fiscal excess to moderate the effects and duration of downturns. Pretty cool!

One can only wish that the Bush Administration had respected these norms, instead of blithely running up huge budget deficits throughout the recent go-go years. And one can only pray that the Obama Administration, faced with no good options in this area, has figured out, as we confront the worst economic downturn in decades, exactly how much federal deficit spending today is the right amount.

But whatever else we might believe about the role and importance of deficit spending during downturns, surely we can agree that this job must necessarily fall to governments, not individuals and families. We have already seen the ways in which it makes no sense, from either the individual's or the society's point of view, to urge already over-indebted citizens and families to do anything other than start living within their means, so that they at least can have a chance to start building wealth, instead of only consuming and borrowing it.

If you're still not convinced, recall that the U.S. government, if it wants to borrow money to engage in deficit spending, can do so at an interest rate of two or three percent. But if you as an individual use your credit card to do exactly the same thing, you'll incur an interest rate of 20 percent or more. Which is the more efficient way to borrow?

Further, we must reckon with what the economist Mancur Olson famously called the logic of collective action. There are some goals which, even when favored by all of us as individuals, cannot be achieved solely or even mainly through individual action. For example, if one shopkeeper in a big, dirty city is considering whether to discontinue the practice of throwing his garbage into the street, hooray for him! But he is quite unlikely actually to change his behavior, partly because he knows that his behavior as an individual can have only the slightest impact on the overall problem, and partly because he knows that if he starts paying for garbage removal, while his competitors continue to throw their trash into the streets, his costs will go up while their costs remain constant, a development which could ultimately threaten his very livelihood.

The only real solution, then, is for *all the shopkeepers at once to change their behavior*. And such a solution clearly requires *collective*, not merely individual, action. There are many other examples of the logic of collective action, and deficit spending to stimulate the economy is surely one of them!

So – in the spirit of Keynes' famous appeal – if I sally out tomorrow as a patriotic housewife, with the idea observing my country by maxing out another of my credit cards, I am just like that shopkeeper. I know that my big splurge at the mall, no matter how much I buy, will hardly affect the current totals on U.S. consumer spending. At the same time, I know that maxing out my credit card will almost certainly make me and family *worse* off. Therefore, as a patriotic but also intelligent housewife, once I reflect on the matter for even a moment, I am quite likely to do the smart thing, which is either to sally back home with the credit card untouched and unswiped, or even better, sally over to a savings bank or credit union and

make a deposit – an action that, all by itself, will almost certainly make me and my family *better* off, and one that I also know, insofar as making such a deposit helps me make the transition from dependent debtor to independent saver and investor, is *good* for society.

For these reasons, whenever we need to prime the economic pump in the short term, we can typically do it effectively *only* if we do it collectively, through the actions of our democratically accountable government, instead of individually, through the private overspending of citizens and households. This concept is completely consistent with the thrift ethic, and there is nothing, absolutely nothing, paradoxical about it.

2. Assuming that there is a paradox of thrift encourages waste.

The story is told that Keynes, in a fancy washroom while attending a dinner at the Mayflower Hotel in Washington, D.C. in 1934, instead of taking a single towel to dry his hands, dramatically pushed the entire pile of clean towels to the floor and crumpled them, explaining to his listeners that his way of using towels would do more to reduce unemployment and stimulate the economy than would using only one towel at a time.

The story may be apocryphal, but it clearly captures the essence of what Keynes and others have understood as the paradox of thrift. In this view, it is fundamentally "Enterprise" that generates wealth – regardless, as Keynes put it, of “whatever may be happening to Thrift.” Accordingly, if thriftlessly tossing clean towels onto a dirty floor will generate a bit more "Enterprise" among under-employed hotel workers in America in 1934, then by all means start tossing, and thrift be damned, since it is *inactivity* – the towels just sitting there, seldom being used – that constitutes the real and ultimate danger. The values traditionally associated with thrift – carefulness, conservation, wise use – therefore become (at least in this situation) a side-show at best, and harmful at worst.

At the very center of this argument is the unethical and finally counter-productive encouragement of waste. A great weakness not only of the critique of thrift specifically, but also of much economic analysis generally, is the dubious claim that anyone dollar spent on economic "Enterprise" is the equivalent of any other dollar spent on it.

But there is no such equivalence! A dollar spent on bottled water is clearly not as good – not as productive, not as wise, not as helpful to society – as a dollar spent on a tap water purifier. A dollar spent on a lottery ticket is not as good as a dollar spent on a DVD. A dollar spent on junk food is not as good as a dollar spent on healthy food. And no, a dollar spent on cleaning needlessly dirtied hotel towels is not as good as a dollar spent on, say, better food and service in the hotel restaurant.

This fundamental intellectual weakness – the idea that buying stuff is buying stuff is buying stuff, and that all of it is the same, and all of it is good – is harmful wherever it finds expression, but is particularly harmful in the United States, where we are already

dangerously in thrall to the idea that vast amounts of consumption constitute a primary good and goal of life.

Particularly in the U.S., then, we desperately need ways and means to make more, and better, distinctions regarding how we spend our money. We are arguably the most wasteful society on the planet. On the one hand, so many of us buy amazing amounts of stuff that we clearly don't need and that fail in any meaningful way to enrich our lives. On the other hand, there are numerous domains of American life today – transportation, health care, education, leisure time, and others – that all but cry out for more, and more prudent, expenditures.

In seeking to make such distinctions, as individuals and as a society, what principles can we turn to? Which general ideas can help us? Well, what about the principle that spending is such a good thing, and so vital to our nation, that it really doesn't matter very much what we are buying? What about the idea that thrift, with its emphasis on carefulness in spending, is actually a problem? How's that likely to work for us?

The idea that thrift is problematic fosters waste, and the great sin of contemporary American consumerism is waste. This wastefulness is not, as Mandeville would have us believe, a "noble sin." It's just a plain old sin.

1. Properly understood, "thrift" means the ethic and practices of wise use.

If Keynes and all the others had merely insisted that there is a "paradox of saving," I would still disagree, but I wouldn't be nearly so hot and bothered about it. I wouldn't be ready to sign petitions, write long articles, find a soap box, and start a campaign. I wouldn't be up in arms. My reason for the distinction is simple: "Thrift" is a much bigger and more socially important word than "saving." Tell me that saving is paradoxical, and I will raise my eyebrows. Tell me that thrift is paradoxical, and I want to fight you.

Now, if I had been around in 1930 and somehow able to challenge Professor Keynes to a fight on this issue, I'm sure that the brilliant gentleman would have been amused – "Who is this crazy American?" – and also genuinely puzzled and surprised, since everything that Keynes wrote and said demonstrates that he was clueless as to the actual meaning of the word "thrift." And here, patient reader, if may be permitted to use the term, we encounter an actual, living-and-breathing paradox in American economic history: Those who have most often, loudly, and confidently insisted that thrift is paradoxical, and therefore always at least potentially anti-social, are also those who do not know, and do not seem to care, what thrift actually is. Quite a paradox, isn't it?

Remember how Keynes put it? In *A Treatise on Money*, he criticizes "that voluntary abstinence of individuals from the immediate enjoyment of consumption, which we call

Thrift." And then: "But it should be obvious that mere abstinence is not enough by itself to build cities or drain fens..."

For Keynes, then, and also for countless others who have admired and followed him, thrift is *abstinence*, plain and simple. It's a wholly negative concept – it means *not* doing something (not enjoying the goods of consumption). It connotes passivity, quietude, voluntary withdrawal. That's why Keynes could famously contrast "Thrift," which for him fundamentally means inactivity, with "Enterprise," which for him fundamentally means activity. In sum, "Thrift" means that we aren't doing anything, and "Enterprise" means that we are doing something.

The root of "thrift" is "thrive." A thrifty person is one who thrives.

Thrift connotes growing, flourishing, spreading out. A commonly repeated maxim from thrift's heyday as a U.S. public value is that thrift makes two blades of grass grow where only one grew before. There are plants that are commonly called "thrift." In the justly celebrated 1911 edition of the *Encyclopaedia Britannica* – the very edition that Keynes, writing in the 1920s, would certainly have used – we thus learn that: "There are several species of plants, such as the sea pink, *Armeria maritima*, or March rosemary (*Statice*) which from their vigorous growth are often termed "thrift."

Thrift connotes industry, hard work, prosperity. The goal of thrift is to gain and enjoy the good things of life. Says the 16th century poet John Lyly: "Thy heart's thirst is satisfied with thy hand's thrift." The great American apostle of thrift, Benjamin Franklin, says: "Be industrious and frugal, and you will be rich." When Franklin similarly advises that "Industry need not wish," he is offering a strategy for getting one's wishes. That strategy, he tells us, "consists very much in Thrift." Franklin openly states that "Wealth is not his that has it, but his that enjoys it."

Thrift connotes abundance. Thrifty people, as we've seen, tend to earn and spend much more than thriftless people. Says the 16th century poet and courtier Sir Philip Sidney: "Thrift is the fuel of magnificence."

The thrift ethic is a secular expression of the religious principle of stewardship. The main idea is we are not the owners of our wealth, but rather the trustees, who are therefore ethically obligated to use it wisely and carefully, for our benefit and for the benefit of others. The Puritan divine Cotton Mather, who strongly influenced Franklin, writes in *Essays to Do Good*, published in 1710: "This may be said of all our estates: what God gives us, is not given for ourselves, but, 'for the Lord.'" A quarter-century later, Franklin, in *Poor Richard's Almanac*, omits the theology and puts it this way: "The noblest question in the world is What good may I do in it?"

Does thrift connote saving, carefulness in spending, sustainability, and conservation? Yes. While such capacities do not define thrift – we learn from the article on "Thrift" in *The World Book*, published in 1918, that "The word has no exact synonym" – they are certainly integral to the larger concept of wise use. Careful spending, for example, as we learn from several old

writers, is "the handmaiden of generosity." Franklin constantly emphasizes the importance of frugality. For many decades during the 20th century, U.S. and British mutual savings banks gave away to their depositors small metal "Thrift Banks" (to put coins in, so as to facilitate saving) and pamphlet-style "Books of Thrift" (full of tips for Mom and Dad about household budgeting). A character called "Uncle Thrift," the star of a U.S. children's book published in 1923, raps: "We will be a thrifty nation, When we all learn conservation."

Put it all together, and we find, in the concept of thrift, a sophisticated call for the ethics and practice of wise use. Thrift is the art of making the wisest use of all that we have – time, money, our possessions, our health, and our society's natural resources – to promote both our own flourishing and the social good. The concepts most contrary to thrift are idleness and waste.

In 1930, the very year that Keynes' *A Treatise on Money* was published, the U.S. National Thrift Committee, led by the YMCA, publicly suggested that the best and most concise definition of "thrift" is "wise spending, careful saving, and generous sharing." About that same time, Henry S. Rosenthal, a thrift advocate and a leader of the American building and loan movement, wrote: "Thrift is a word of broader meaning than saving. It denotes a higher and more intelligent use of accumulations, than merely saving them." In Brooklyn, New York, during this same period, one building and loan association was popularly known as "The Thrift." In its statement of purpose, "The Thrift" says that it seeks to "encourage people to become prudent and wise in the use of money and time."

That's what thrift is. Thrift is not "mere abstinence." It is not another word for inactivity – quite the opposite. It is not something that retards or negates "Enterprise" – again, quite the opposite. Suggest to any of the countless American or British thrift advocates of the past several centuries that their beloved thrift ethic means "mere abstinence," a lack of activity, and – well, I've just given you a pretty good sampling of what they would say, and have said. When it comes to understanding what thrift is, Keynes and company are not even close. Quite the opposite.

Does it really matter? Does the terminology that is chosen – the precise phrase that gets used actually make a difference? You bet it does.

Names matter. Names are frames. What we call something can significantly influence how we think about it. Sometimes, what we call something can even affect our larger world-view. Consider an obvious example. Remember when you first heard the term "no-fault divorce"? What did it mean to you then? What does it mean now?

Now, of course, if for some reason you need to study the topic, there is a large technical and academic literature on how no-fault divorce operates in the U.S. states that have adopted it. This professional literature focuses on topics such as whether and how no-fault divorce laws affects divorce rates, how the adoption of no-fault affects outcomes in areas of child custody and child support, and many other topics. All very interesting and important.

But in addition to these technical meanings that primarily concern the experts, there is also the more basic and probably even more important matter, which is: When ordinary citizens say or hear the term "no-fault divorce," what does it mean to them? Put a bit more precisely, how (if at all) does regularly hearing, reading, and using the term "no-fault divorce" shape the general thinking and behavior of ordinary citizens regarding marriage and divorce?

The answer to this question is clear. In the public mind, "no-fault divorce" means, "When a divorce happens, it's no one's fault." That's it. That's the message that is delivered, every single time a citizen hears or encounters this term. Does the message affect the way we think? You bet it does. It helps us to believe, and to say out loud through the use of a popular term, that a divorce is like a snow storm – it may not be such a wonderful thing, but when it happens, it happens, and when it does, no one is responsible and no one is to blame. Now, we can debate whether this idea is good or bad for us as a society. (In my view, it's bad.) But either way, I think we can agree that the widespread use of the term "no-fault divorce" is a meaningful social fact in the United States today.

It's exactly the same with the term "paradox of thrift." Yes, there are numerous technical and academic issues to examine, usually by drawing on the knowledge of experts, and narrow but important questions to try to unpack. Most of this essay focuses on just such issues and questions. But there is also the matter of broad public meaning. And in the public mind today, "paradox of thrift" means, "Thrift can be a bad thing." That's the message that is delivered, every time a citizen hears or encounters this term. Does the message affect the way we think? You bet it does. It helps us to believe, and to say out loud through the use of a popular term, that personal irresponsibility can be socially beneficial, that wastefulness is not so bad after all (it's a "noble sin"), and that what appears to be wise for me and my family can actually hurt society.

Everyone who agrees with the message, please raise your hand.

If you haven't raised your hand, welcome to the team. The victory we seek is to convince the commentators and our fellow citizens that, for reasons both prudential and patriotic, the "paradox of thrift" is a term that should be put out of its misery once and for all.

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