

## Beggaring our Children

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Tom Brokaw described the generation that endured the Depression and fought WWII as the *greatest generation*. I agree wholeheartedly. My own parents entered adulthood during the Depression and my father fought in WWII. They and most of their contemporaries shared a vision: *Live in such a way that we leave the world a better place than we found it*. Arguably they did just that for their children.

How did they go about improving things? They found themselves in a broken economy,<sup>[1]</sup> so they paid and sacrificed as they went and they saved for the future. The entire country sacrificed for WWII, there was a battle front and a home front in that war; rationing limited use of home front resources and personal savings were invested in War Bonds to fund the battle front. Women went to work making war materials; they grew victory gardens and sent food packages to the troops. Everything possible was reused and recycled. There were blood drives, bandage rolling bees and paper drives. When the war was over, the greatest generation rolled up its sleeves and began to build our world of plenty; paid for with their taxes and personal savings.

From 1950 to 1986 the American people saved a yearly average of over 8.5% of their disposable incomes,<sup>[2]</sup> maintained a trade and current account surplus with the Rest of the World, helped to rebuild Germany and Japan, fought in Korea, Vietnam and the Cold War, funded infrastructure building: the highway system, an education system, California's water system, housing, basic utilities, etc.

My wife's parents were also part of the greatest generation. Her father worked more than 40 years as a grocery clerk in a small town in Nebraska; normally 12 hours per day, 6 days a week. Her mother worked part-time in a doctor's office. They survived the Depression and were life-long savers: they saved for a rainy day, they saved for their children's education, and they saved for their old age; they didn't want to be a burden to their children.

They lived simply and avoided unnecessary expenses. They put two daughters' through

nursing school and a son through college. They saved for and paid for their old-age with the help of Social Security. When, 7 years ago, Jo-Ellen's father died at age 95, he still had more than \$300,000 in savings accounts and Savings bonds, some dating back to the 1950s.

The Greatest Generation left us a legacy of a healthy economy and examples of hard work and serious savings. As a society, are we still making the world a better place for our children? Fast forward to present for some comparative examples:

**Individual:** For the fiscal years 2000 to 2005 the average US personal savings was less than 2 % of disposable income and was negative in 2005.<sup>[3]</sup>

During the same period we borrowed to the hilt on our homes and credit cards. Low interest rates, lending institutions awash in cash supplied by foreign sources, a long history of increasing home prices and a government which has encouraged us to spend our way out of a recession, have induced many people to borrow to the hilt and spend it on consumables. Thus far in fiscal 2005, about 1/3 of homebuyers have bought homes with Adjustable Rate Mortgages which they can repay only if the economy stays healthy, home values continue to increase and interest rates don't rise; a combination that is increasingly improbable.

**Business:** General Motors over the years negotiated health and retirement benefits which they did not adequately fund. Now they have a \$1500 per-vehicle manufacturing cost to pay the current costs of those benefits. GM's global competitors don't have that cost, so they start with a competitive advantage. The annual bill is actually a fixed cost, so that as GM's sales decline the cost per-vehicle increases. This makes it tempting for management to outsource jobs and then ruthlessly dump the fixed costs. Other Fortune 100 companies have similar underfunded liabilities. Some have already declared bankruptcy lowered salaries and dumped pension benefit costs.

**Society:** In the six year period from fiscal 2000-2005 the USA's cumulative Current Account

Deficit with the rest of the world has increased by a whopping \$3.2 trillion.<sup>[4]</sup> Over \$700 billion of this is in the current fiscal year and equals more than 7% of our entire GDP! This negative balance is funded by borrowing and investments from the rest of the world. At a 4% interest rate, the six year increase in debt adds over \$120 billion per year to the annual current account deficit as compared to 1999! Furthermore, most of this debt is short term (under 10 years), so that its cost will rise as interest rates increase; something equivalent to adjustable rate mortgages.

Why does the rest of the world continue to lend to us at such low rates? Two reasons ... co-dependent economies and for now, no where else for their savings to go. Economic co-dependence can be explained by example. If you owe the bank a million dollars and can't pay; *you're* in trouble. However, if you owe the bank over \$3 trillion dollars, the *bank's* in trouble too.<sup>[5]</sup>

Who are we borrowing from? The largest sources are Japan, China, Germany, Taiwan and South Korea. In these countries, where scarcity is a more recent experience, saving is a way of life. In Japan, savings has been institutionalized. However China and Korea are beginning to move from savings to consumption. China is starting to compete with us for fossil fuels, food and other raw materials. China's agricultural output is decreasing, and global grain reserves are already the lowest in 30 years.[1] (30 years ago the Earth's population was about half what it is today.) That competition will increase our prices and even restrict our access to vital resources, as it has already for oil, and set us on an unstoppable inflationary course. These countries are better able to compete than we are because they have substantial dollar cash reserves, and we have an enormous debt.

I suggest that as the Greatest Generation retired and died off from 1986 to the present, their work and savings ethics were gradually replaced by other behaviors and beliefs that naturally evolved from a sustained period of political success and financial plenty. Among these beliefs and contrasting realities are:

#### ***Rights and Entitlements without duties***

A Bill of Rights, but no Bill of Duties (our forefathers developed the Bill of Rights in the context of a society that was thoroughly indoctrinated with duties to king and country. We no longer have that context.)

Job rights, Social Security benefits, Medicare benefits; but no balancing duties to insure their sustainability.

#### ***Services without taxes***

We could say that if Democrats represent "*Tax and Spend*" (which is at least pay as you go), the Republicans now represent "*Borrow and Spend; it won't have to be repaid on my watch.*" However, both parties merely reflect our collective mythologies, and neither works for balanced budgets or personal savings because actually leading the country rather than following the polls would cost them elections.

#### ***Debt without savings***

Debt will matter in the future when we compete with China and our other creditors for vital natural resources. Shakespeare put it well 400 years ago: "*Neither a borrower nor a lender be, for loan oft loses both itself and friend, and borrowing dulls the edge of husbandry.*"

#### ***Success without personal failure and personal sacrifice***

A War on terror, but no war tax (taxes actually lowered), no draft, and no serious regulation of trade or illegal immigration for the sake of national security; basically: no Home Front.

#### ***We can control our destiny indefinitely***

We have only postponed a depression and serious inflation through massive borrowing from the rest of the world. This continues to increase strains in our economy and the economies of other nations. Eventually the buildup of strains will require an economic and political avalanche to release them. The longer we postpone healthy adjustments, the more massive will be the avalanche. [2]

#### ***The pursuit of Happiness and full employment require self-indulgent consumerism***

Extensive research shows that we are not happier than, or even as happy as, the greatest generation in spite of material affluence and self indulgence. In fact we are no happier than peoples living at less than 1/10 of our standard of living. [3, 4]

#### ***U.S. Citizens have an inalienable right to this lifestyle***

In practice, there are no inalienable right's... only rights that an overwhelming majority of people are willing to sustain through work, money, risk and sacrifice. Just ask those who were, and still are, imprisoned or spied upon without due process as part of the war on terror.

I strongly suggest that these, unsustainable, self-destructive **myths are beggaring our children** as much as the financial debt which we are amassing and which they will ultimately have to pay.

I further suggest that these myths are the natural products of continued economic and political success; just as our expanding waistlines are the natural results of persistent food surpluses. Likewise, the Greatest Generation was largely a natural result of the Great Depression and WWII.

Our cultural myths cannot be altered significantly so long as we maintain superficial economic and political success. Depressions, wars, terrorists, plagues and famines will and must happen from time to time; they are the social failures that produce experiences which drastically adjust cultural attitudes and reset myths and practices so that, over the centuries, our collective expectations and actions support a sustainable reality. The rest of nature works this way, and we are part and parcel of the natural world.

We may not be able to alter cultural myths but we can prepare ourselves and our own children for the realities of the future. We can emulate the greatest generation: consume less, save more, pay off debts, build up reserves and develop Tea Ceremonies. A Tea Ceremony (like Victory Gardens, blood drives and paper drives) is a ritual that is not self-indulgent and produces personal happiness, self respect and the respect of others.

As an example of what we can do to avoid beggaring ourselves and our children, and of a creative Tea Ceremony, I'd like to close by telling you about Bernie Aarons.

### **Bernie Aarons**

I never met Bernie. I wish I had. He was another member of the Greatest Generation. Bernie was a dentist and my father's friend. They first met in 1953 while they both served in the Navy. When he died last year, Bernie was in his early 80s. He was a widower. Bernie's wife had died decades earlier and he had never remarried. He loved his work and continued to practice dentistry until a few years before his death. Bernie's memorial service was held in a small alcove of the Stanford Chapel. Fewer than 40 people were there, mostly family and a few close friends including my father. I was there only as dad's transportation.

When the service began I knew nothing about Bernie the person and fervently hoped the service would be brief. After a short, quasi-religious service, his son, two college age granddaughters and several close friends lovingly and humorously shared their recollections of Bernie.

There was a common theme: Bernie was frugal and thrifty; nay he was a miserly tightwad. He never spent a nickel on himself unless he had to. His family and friends lovingly, laughingly and proudly recounted stories of his thrift, such as how he would drive around the block looking for a parking space with "time on the meter" so that he could save a quarter. I thought: sounds like Bernie was a lovable, eccentric dentist who left a bundle of money to his son and grandchildren. I was wrong.

When the family and close friends were through, a man stood up and introduced himself as the President of University of the Pacific in Stockton. Then, with obvious warmth and admiration he filled in the rest of Bernie's story. Over the previous 30 years Bernie had systematically donated millions of dollars to UOP's dental school: in scholarships for financially challenged students, for classroom equipment and for building funds. These were annual donations generally increasing from year to year. He and Bernie met for lunch once and year and Bernie would commit to a donation, usually before he had the funds to pay for it. Saving for the benefit of others was Bernie's reason for being a tightwad and added purpose, meaning and joy to his life.

### **Epilogue**

In the Q&A period after the talk some memorable contributions came from the audience:

1. Rhetorical question: Who paid for the lunches, Bernie or the UOP president?
2. The people in our country with the work and savings ethic most like that of the Greatest Generation are the immigrants (legal and illegal) who clean houses and work the fields, live in crowded conditions and save for a better tomorrow.
3. The people who fought and sacrificed in WWII didn't expect, and largely didn't receive recognition for personal acts of heroism. They were just doing a job that had to be done. Today, particularly in the work environment, most of us expect personal recognition or rewards for any actions above the norm.

## References

1. Brown, L.R., *Outgrowing the Earth: The Food Security Challenge in an age of Falling Water Tables and Rising Temperatures*. 2004, New York, N.Y.: W.W. Norton & Company. 240.
2. Buchanan, M., *Ubiquity, The Science of History... or Why the World is Simpler than we Think*. 2000, New York, NY: Crown Publishers. 273.
3. Easterbrook, G., *The Progress Paradox; How Life Gets Better While People Feel Worse*. 2003, New York, NY: Random House. 380.
4. Layard, R., *Happiness; Lessons from a new Science*. 2005, New York, NY: Penguin Press. 310.

## Footnotes:

<sup>[1]</sup> It was broken by an earlier decade of affluence, the Roaring Twenties.

<sup>[2]</sup> Bureau of Economic Analysis, National Income and Product Accounts Table 2.1 Personal Income and its Disposition found at [www.bea.gov](http://www.bea.gov) .

<sup>[3]</sup> Bureau of Economic Analysis, National Income and Product Accounts Table 2.1 Personal Income and its Disposition found at [www.bea.gov](http://www.bea.gov) .

<sup>[4]</sup> Bureau of Economic Analysis, BEA 05-27 U.S. International Transactions: First Quarter 2005, Table 2, et. al

<sup>[5]</sup> These can be found at: [www.iie.com](http://www.iie.com) under “Hot Topics”  
**Postponing Global Adjustment: An Analysis of the Pending Adjustment of Global Imbalances** by Edwin M. Truman, Institute for International Economics July 2005

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