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MEMORANDUM

TO: New Social Contract Group Participants

FROM: The Breakthrough Institute

DATE: March 13th, 2008

RE: New Social Contract Focus Group Findings

The Breakthrough Institute held two focus groups on 4/29/2008 in Edison, New Jersey, to better understand how individuals reasoned about a new social contract in the context of the current economy. Individuals were recruited who were undecided as to who they would vote for in the 2008 Presidential election, but who also were registered voters who called themselves "very likely to vote". The 6:00 pm group consisted of 10 women, ranging in age from 47 to 70. The men's group, which took place at 8:00 pm, consisted of 8 men ranging in age from 21 to 67.

"WHAT DOES IT MEAN THAT THE ECONOMY IS NOT DOING WELL?"

The groups both agreed, without prompting, that the economy is not doing well. As soon as the opportunity arose, participants began discussing the poor economy, responding with concerns about the cost of consumer goods, salaries, and layoffs. Rising costs played a prominent role in the discussion, with participants discouraged that the cost of everything kept going up, from gasoline to scallops. One woman's statement that "Everything just keeps going up except salaries and health insurance" largely reflected the sentiment of both groups.

Most participants stated that they themselves were doing alright. But they perceived that many Americans, in some cases their own children, were not. Yet even for those doing relatively well, America's economic difficulties were not abstractions. All of the participants were acutely

aware of not only the rise in consumer prices, but also what felt like a serious decline in their purchasing power.

This assessment of the economic crisis as being about rising costs of consumer goods and the stagnation of incomes stands in sharp contrast to the type of financial crisis it is *not*. While participants mentioned layoffs, they did not play the focal role in the discussion. After 9/11, prominent concerns were about the recession and job loss. This financial crisis, on the contrary, is about the energy crisis and the subsequent rise in gas costs, coupled with the housing crisis (and arguably the credit crisis as well).

The nature of the current economic downturn may have quite different implications than downturns in the wake of 9/11 and the early 1990's. While government indexes already indicate that job losses in the current downturn may not be nearly as severe as many had feared, it appears possible that declining purchasing power due to the weak dollar, rising energy prices, and tight consumer credit may be the norm for a number of years to come. In contrast to economic problems more centrally focused on job loss, which for most Americans remains an a fear but not a reality, declining purchasing power will be experienced at a "basic level," meaning that it will be experienced daily and in easily visualized terms, by many more Americans personally.

That fact that most Americans will experience these economic problems directly and individually has significant consequences. While layoffs, downsizing, and outsourcing are easily attributed to recognizable external forces, rising debt and declining purchasing power are a bit more complicated. While some familiar ideas, like gas tax holidays and price caps, may make sense, there is an individual component to debt and spending that may confound many proposals to address the current economic situation.

According to the focus group participants, individuals in debt have "spent beyond their means." People who can't afford to buy everything they want need to "reevaluate their priorities." Much of the decline in buying power is perceived as impacting non-necessities. Participants spoke of

forgoing vacation travel to places like Ireland, and it's not clear how much class resentment the rising cost of the aforementioned bagged frozen scallops at Costco is likely to engender.

But while corporations, trade agreements, and illegal immigration are easily blamed for job losses, it's less clear who is to blame for the housing crisis. Oil companies are an easy target when it comes to rising gas prices (which was voiced during the groups), but the weak dollar and rising consumer prices are less easily pigeon-holed. Moreover, given the culturally embedded idea that individuals are free to choose how they spend their paycheck, the individual is arguably complicit in whatever financial state they have gotten themselves into. While we should not underestimate the degree to which international travel and frozen scallops may represent new middle class entitlements in the minds of some Americans, the current economic situation may ultimately be more prone to explanations that revolve around individual, rather than government or institutional, failings. This suggests that policy prescriptions probably need to reflect the perception of the important role that individual behavior plays in the problem.

GENDER AND SUCCESS

The men's group and the women's group had different ideas of what a successful financial life might look like. For the men, success was being a good provider. For the women, success was not having to be provided for.

The men's group defined their own success as being able to provide for their family. They wanted to be able to send their kids to good schools, and give them the support they would need to eventually achieve a moderate level of comfort and success. As stated by one of the group members, "Investing in my children, and their education, and guiding them to where I wasn't guided. That, to me, is important." Or as another participant put it, "Most people with kids would say that their biggest thing is to have their kids do better than them. It's kind of what our country was founded on." Additionally, the men largely saw success as being the sole breadwinner in the family. As said by one of the participants, "If you asked any man, he would not want his wife to work." They were careful to emphasize the difference between times in

their lives when their wives *wanted to* work and the less desirable times when their wives *had to* work. Despite the caveats that some women want to work, there was the strong sense that in their ideal world, the men would be able to provide for the family through their salary alone.

The women, on the other hand, emphasized a strong desire to take care of themselves. They saw success as not being a burden on anyone; to pay for one's house, to take care of one's self during retirement and not be a burden on their children, and to be able to afford their own health care. They mentioned wanting to pay for their children's schooling, but it was not the focus of the discussion. At the same time, they emphasized the importance of their husband's salary on their own financial security, or for the single mom in the group, the degree to which being the sole income-earner was a financial strain (she, in fact, expressed relief that one of her grown children had moved back in with her and could help defray rent and other household expenses).

The women's cognizance of their potential financial vulnerability and would seem to be the basis of much of the discrepancy between the aspirations of the men and women in these groups. For the women, their desire to be secure and not dependent on anyone else would appear to reflect present financial insecurity. A shift in their husband's financial status, or their marital status, would immediately and dramatically change their financial status as well.

One got the sense that the women felt one step away from having to move in with their children. The men's experience, conversely, was that while their wives employment could alleviate financial strain, and might at times be necessary to have all of the things that they wanted in life, it did not fundamentally impact their own financial security. They did not express the desire to be able to take care of themselves because they did not appear to have the same deep-seated sense of personal financial vulnerability as the women did.

MODEST SUCCESS

While the men and women had different ideas of what financial success meant to them, they were consistent in what their financial goals looked like. Both groups defined success in extremely modest terms, including educating one's kids, paying off their house, avoiding debt,

and having a comfortable retirement. No one mentioned getting rich, and with the exception of a woman who jokingly mentioned wanting a vacation house in Long Island, no one mentioned luxuries. "Success" looked like what might be commonly thought of as a typical upper-middle class lifestyle.

The participants' aspirations appear to be modest not only in material terms but also in non-material terms. For the most part, the participants didn't articulate dreams of opening a Bed and Breakfast in the Hudson Valley, leaving the rat race behind and traveling the world, or starting a new career that bettered society after achieving their financial goals. Instead, success was achieving what was once thought of as a modest, middle class life- in short, what was once seen as the logical outcome of working hard and playing by the rules.

SAVINGS, DEBT, AND PERSONAL RESPONSIBILITY

As previously discussed, financial success or failure was largely attributed to the behavior of the individual. The focus group participants seemed to reason that while they were making good, responsible decisions, their "fellow Americans" who were suffering economically had made poor ones. The path to financial success was seen as saving and spending wisely, working hard, and investing. Family was seen as helpful, but only conditionally. While some of the men alluded to government and union jobs being desirable, government was largely seen as an impediment to individual financial success rather than a facilitator of it. When you have a financial crisis that is characterized as a massive accumulation of personal financial problems, it's only logical that one's propensity for self-discipline will determine whether the individual fails or succeeds in the midst of it.

For this reason, discussions of turning America from a nation of debtors to a nation of savers were well received, as it taps into people's desire for individuals to take personal responsibility for their own financial outcomes. We found that both the men and the women strongly and almost unanimously agreed that America should become "a nation of savers and investors." The idea of creating "Baby Bonds" and seeding a savings account for every child were responded to

positively. The men in particular brought up experiences of others setting up savings accounts for them when they were young, or of having done so for their own children. This could serve as a powerful metaphor moving forward, balancing the belief in personal responsibility with the experience of someone assisting them in getting on the right track.

The second concept tested, of seeding IRA's for adults who agreed to automatic deductions from their paychecks, was also well received. There was some resistance to the idea of mandatory automatic deductions to an IRA, but this may be due to the way we presented the initiative. It was unclear whether the groups understood that the program was voluntary but included the requirement to commit to consistent savings, or whether they were expressing the sentiment that they themselves didn't want to be forced to save because, as one participant put it, "This is America!"

We were surprised that there was less concern about the government seeding savings accounts for children or matching IRA contributions for adults. Typically, respondents are concerned that recipients of government aid are in need because they have been irresponsible in some way. The muting of these concerns may be the result of having presented these programs as a broad entitlement for all Americans rather than as a poverty alleviation program targeted to low income Americans. Indeed, respondents tended to be more concerned that wealthy Americans would benefit from the program who didn't need the help than that poor Americans would receive benefits that they hadn't earned or worked for.

While overall support for the programs described above is consistent with other research, it is not clear that participants saw these programs as solutions to the major economic problems that they believed the nation is faced with. As opposed to things like gas tax holidays and windfall profits taxes, which are direct responses to the most publicly salient manifestation of the current economic malaise, it is not clear that most Americans will be easily convinced that baby bonds and government matched IRA's are the answer to rising prices and declining purchasing power. As such, the gap that presently exists between public support for these policies and political action to establish them may be difficult to bridge unless asset-based

policies can be better conceptualized as solutions to the economic problems that Americans are presently most focused upon.