INTERNATIONAL
Herald Tribune

Learning to reach lower for happiness

By Sharon Reier

Friday, September 19, 2008

> "If you know how to spend less than you get, you have the philosopher's stone."
> Benjamin Franklin

In Rambouillet, France, about an hour's drive from Paris, a French executive and his wife have given up their customary weekend evenings in the capital because the price of a show, a restaurant, gasoline for the drive and a babysitter until the wee hours of the morning has become prohibitive.

In a prosperous Long Island suburb, the wife of a fund manager says she has heard gossip that several women in her club have had to borrow to pay their annual dues.
And as far away as Tanzania, a tour provider frets that Americans are cutting back on African safaris.

Pride prevents many of these well-off people from discussing or even closely examining their downsizing - a phenomenon bound to intensify as financial institutions unravel and bankers at Lehman Brothers and elsewhere lose their hefty paychecks. And of course, most people with moderate incomes would be happy to have these problems.

But to David Rosenberg, chief North American economist at Merrill Lynch, the evidence was clear even before the Wall Street debacle: The downturn in the world economy and the end to a 20-year credit cycle that fueled a consumption boom, means that households at nearly every level are reducing spending.

"It means that fashions are going to change," Rosenberg wrote in a research report last month. "It means that frugality is going to set in."

So far, spending by the affluent may be merely fraying around the edges. But Russ Prince, president of Prince & Associates, a market research company that tracks the habits and attitudes of the rich, says that members of a group he calls "middle-class millionaires" - those who have total assets of between $1 million and $5 million - are "freaking out," worried about cash flow because of high fixed costs like maintaining large houses and sending their children to private school.

But finding one's inner Benjamin Franklin - the American founding father who moralized about the relationship between money and happiness - is not easy. How well people at all income levels cope with the need for frugality depends in large part on how they are wired and how they have been socialized. With the majority of people feeling more out of control about the economy than at any time since the Great Depression, coping may require far more than a family budget and some financial education.

Sharon Danes, an economist and professor at the University of Minnesota who advises family businesses, likens the emotional reaction to a suddenly reduced income to the loss cycle in mourning a death: First denial, then anger and blame, followed by depression with loss of energy; negotiation, in which people want to discuss the problem; and, finally, acceptance and the search for a solution.

The denial phase, Danes said, can mean that although income drops immediately, people "continue their lifestyle as it is until they see things are not going to change." The result is that spending ratchets down in smaller increments. In fact, it may take a wake-up call, like not being able to pay a tax bill, to stimulate action. "Then the change becomes scary," she said. For those whose sense of self depends on money, warned Richard Trachtman, who runs a New York psychological practice specializing in money and relationships, the consequences of concentrating on wealth are often "unhappiness, physical problems, headaches, backaches, suppressed tension, which leads to heart attacks, problems in relationships and problems with sleep."

Trying to change that orientation may be difficult Trachtman said, "because it is hard to change your personality and the habits of a lifetime."

Once people are ready to face change, Danes advises them to adopt positive motivations for spending cuts. "Don't call it 'the new frugality,'" she said - that implies a negative outside stimulus. Instead, she said, "Call it 'right-sizing' your life as a family. Or making your life more manageable."

Many affluent parents believe it essential to keep children in private schools and shelter them from financial worries, but Danes advises families to open up about the need to trim budgets. She advised planning and finding ways to encourage children to make small changes, then assessing how those little savings make a difference. "If you make the goals realistic, the snowball of success will continue, so you can motivate the whole family," she said. That ensures the process will be sustainable. "If it is too hard, people are going to check out and not do it."

For some, cutting back may merely mean more discipline and wiser choices; for others it may require tossing out credit cards or even professional help to counter compulsive spending. Lorrin Koran, a professor emeritus at Stanford University, found that 6 percent of women and 5.5 percent of men in the United States had symptoms that correlated with compulsive buying disorder. Worldwide, the figure is estimated to be about 1 percent, but in Paris, a world center for luxury goods, the figure is more like 4 percent, according to Lana Strika, a psychologist who specializes in addiction therapy at Hôpital Emile Roux outside of Paris.

Comparing compulsive spenders with other addicts, Strika said the common thread is a search for pleasure to cover up some deeply held feeling of emotional privation. Erlangen University Hospital in Germany is beginning a therapeutic program for compulsive shoppers this autumn, based on counteracting the lift in self-esteem that shopaholics get from salespeople's attentions.

Increasingly, psychologists have been examining and treating money-related behaviors, as the pursuit of affluence interferes with other life satisfactions or leads to excessive risk-taking or inability to enjoy wealth.

Ted and Brad Klontz, father and son psychologists who specialize in treating financial behavior issues, say that clients are often referred by financial planners and other professionals who have tried to help and have "run out of tools," said Brad Klontz, president of the Hawaii Psychological Association.

Klontz was drawn to the field after he lost virtually all his assets when the dot.com bubble burst. He had just earned his doctorate in 1999. All his friends were boasting of fortunes they had made on the stock market. He wanted to catch up. He sold his truck and invested all his money in the market. Two months later he was broke.

In examining his behavior, Klontz found that he was influenced by an old set of family beliefs developed after his grandfather lost all his money when the banks collapsed in the Depression.

"The typical response is educate, educate, educate. It is misguided," said Klontz, who is also co-author with his father of "The Financial Wisdom of Ebenezer Scrooge." "People know those concepts. You need an emotional shift."

The two men try to find the thinking behind misguided financial behavior. "Every behavior makes perfect sense if you understand the thought process," said Brad Klontz. During the real estate bubble, for instance, some people who bought oversized homes and took risky mortgages thought: "It is my job to give my family what I didn't have." Others thought, "If they are stupid enough to give me this money, I am smart enough to take it."

These personal beliefs then feed into the larger world of public opinion. "People get sucked into bubbles because 30,000 years ago, if you were not part of the tribe, you were dead," said Ted Klontz. "If everyone at the dinner party is talking real estate, that part of your brain gets scared to death that if we are not part of the crowd, we are going to die."

For those hunkering down for hard times, it may be a consolation to recall the Easterlin Paradox, a classic study of the relationship between self-reported well-being and income level.

Despite significant GDP growth in a variety of countries after World War II, Richard Easterlin, an economist, found that the level of reported happiness did not rise with growth in national income. Within countries, however, wealthier people reported themselves as happier.

The explanation is "the more money they make, the more their material expectations rise in proportion to their income," said Joseph Sirgy, a marketing professor at Virginia Tech University. "There is always a gap between what you want and what you get."
He said less materialistic people tend to base their expectations on their own resources - what they earned last year, their level of optimism or pessimism and education and competence. More materialistic people compare themselves with television portrayals of the rich, and are often working off an ideal.

"People are constantly bombarded by messages about how things could be better and how material things will improve one's life," Sirgy said, adding that materialists tend to watch more television and advertising.

As to the current economic downturn, Sirgy observed that people were beginning to make adjustments. "They are cutting down on their travel plans. It is happening in small increments. Expectations will ultimately have to fall. Psychologically, that is how we adapt."