



# Print Edition

SOCIAL SCIENCE: I PURCHASE, THEREFORE I AM

## **Individual identity vs. the financial crisis**

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Most experts agree this is the worst financial meltdown since the Great Depression. The stock market is down almost 25 per cent so far this year. Housing prices in the United States are off more than 20 per cent since their peak in 2006. Manufacturing output is falling and consumer confidence has slipped.

Martin Feldstein, former head of the National Bureau of Economic Research, past chairman of the Council of Economic Advisers and a Harvard economics professor - usually a voice of calming reassurance - wrote in The Wall Street Journal: "Sliding into recession, monetary policy already at maximum easing, and fiscal transfers impotent ... an unenviable situation, to say the least, for any incoming president."

All of this raises two fundamental questions: Where did this financial mess come from? And what does it mean?

The easy answer is to blame the housing market. People took out adjustable-rate mortgages and subprime loans offered with no down payment and easy terms by mortgage brokers who then resold them as securities. As the housing market has weakened and loans have reset, a growing number cannot repay and many more owe more on their mortgages than their homes are worth. Banks and financial institutions, so the story goes, are clogged with this bad debt, now dubbed toxic waste. This is the kind of thinking behind the U.S. financial bailout: Remove the toxicity and all will magically be well again.

Trouble is: It can't work.

The real reason is that the roots of the current crisis are tied to the fundamental nature of the postwar model of economic development called "Fordism." That model drew a tight

connection between assembly-line mass production and mass consumption - ultimately fueled by massive suburbanization.

After introducing the assembly line and making car production more efficient and cars cheaper, Henry Ford realized that a bigger market for his cars was needed - so he boosted workers' wages by introducing the "five-dollar day." But even that was not enough, and so North America and the world lapsed into the Great Depression.

Fordism emerged as a full-blown economic and social model during the 1930s, marked by president Franklin D. Roosevelt's New Deal programs, and flourished after the Second World War, when government policies brought about the rise of longer-term mortgages and a new system organized under the now infamous Fannie Mae to purchase those mortgages and thus lubricate the system.

Add to that massive tax breaks for homeownership and gargantuan subsidies for highway construction and infrastructure, and a whole new model of suburban-fueled mass consumption was born - family after family purchased new homes, filling them with TVs, appliances and all manner of furnishings, while also purchasing record numbers of cars to get to and from work.

While Fordism looks stable on the surface, it suffers from a fatal flaw: It's impossible for consumption to keep up with the ever-growing pace and efficiency of production. This is particularly true of recent times, when a great deal of production has been sent to China, India and other places where labour is cheaper. It's hard for the working and middle classes to consume more when their wages are essentially stagnant. Low-wage workers in emerging economies do not have the income to fill the gap. And while the ranks of the rich have grown, the wealthy are a relatively small group that can buy only so many luxury cars, designer products, homes and yachts.

That's where credit comes in. Those new fancy mortgage instruments were meant to turn homes into veritable "piggy banks" that could be used to finance bigger and better cars and homes and toys.

Almost a century ago, Austrian economist Rudolf Hilferding identified this basic contradiction of modern capitalism in his monumental work *Finance Capital*. Capitalist economic development stands on a shaky foundation, he argued - workers always produce more than they can consume, more even than society as a whole can consume.

As one leading blogger, Yves Smith at Naked Capitalism, recently put it: "Since consumption has come to depend on growth in indebtedness, a reversal, however painful, is necessary. Our excesses have been so great that there is no way out of this that does not lead to a general fall in living standards."

There you have it. The financial crisis is in reality a much deeper crisis of our underlying economic model and our way of life. It's a crisis of the way we have come to define ourselves.

If Fordist mass consumption had a catchphrase, it was "Keeping up with the Joneses" - and in the past decade it became a fearsome standard. So many of us came to define ourselves not through our work or creative endeavours, but through what we could purchase. We were fooled into believing that our identity and self-worth somehow depended on acquiring expensive or impressive belongings - much of it on credit.

Regardless of how or when the financial markets are restored, credit will be much harder to get - the age of the house as piggy bank is long gone.

How will we define ourselves when we can't get a quick self-defining "makeover" at the dealership, the electronics store or the mall? How will we rebuild our way of life and our very identity? Those are the questions that many of us, and our society as a whole, will be confronting long after the financial markets have been restored.

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