

## The Sour Economy, the Greed That Caused It, and the Good That Is Resulting

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The United States is the world's largest economic marketplace. Despite only being the third largest country in the world as measured by population, our economy is the engine that drives the overall world economy. We consume, create, and develop products and services in magnificent proportions. Our financial markets are the barometer upon which all others are measured, and our currency is known the world over.

Within this great nation, we offer a plethora of economic opportunities for our citizens. Individuals can choose their own professions, create a new business, develop new innovations to existing products and services, or serve in the government or military. The United States, without question, is a land flowing with milk and honey where the sky is the limit in regards to individual economic success.

However, the steady flow of economic activity has recently contracted and the previously unshakable envy of the world, the American economy, has been rattled. The recent economic downturn has garnered many headlines over the past several months, and it was the economy that was the kingpin issue during the 2008 presidential election. There is little wonder why. Consider these facts:

- The unemployment rate in Michigan, home of the struggling U.S. automotive industry, rose to 12.6% through the end of the first quarter of 2009.
- Eight of the fifty states have unemployment rates at 10% or higher.
- The International Monetary Fund estimates that credit losses on U.S.-based assets will be \$2.7 trillion. That equates to about \$9,000 per every American man, woman, and child.
- U.S. Industrial Production, which measures the output of factories, mines, and utilities, has fallen by more than 13% since the recession officially began in December 2007. That is the largest decline since the end of World War II.

Of course, the multi-trillion dollar question is "What caused this economic malaise?" Ask 100 different economists this question and you are sure to receive 100 different answers with

terms such as “collateralized debt obligations,” “toxic assets,” and “predatory lending” interspersed within those explanations. Yet, these explanations can be boiled down to one simple cause—greed – greed among American consumers and among American businesses.

Recall the term “keeping up with the Joneses”? Maybe you were like many in that you watched huge homes spring up around you and you were left wondering where the people were working in order to afford such luxurious living. Keeping up with the Jones seemed more like keeping up with the Rockefellers. You knew that you could not afford such a home, but you thought that apparently these people could afford them...somehow.

Perhaps last summer when you were sitting by the lake, you wondered if there were more ski boats and shiny new fishing boats out on the lake than in previous years. Again, it may have struck you as odd as to how so many families were able to afford these boats. You may have even thought about how nice it would be to have one of these boats for your family to enjoy.

What you didn’t realize is that, in fact, many families and individuals **could not** afford these luxurious homes, expensive boats, and new automobiles that you were seeing all around you. Meanwhile, overall consumer debt was soaring thanks to these high-ticket items and saving was shrinking—shrinking to the point that people were literally spending more money than they were taking in from paycheck to paycheck.

At the same time, businesses were eager to extend credit to practically anyone with a pulse and oftentimes with few strings attached so that the businesses could continue to move more products and services and eventually increase the bottom line. Consumer credit scores were practically ignored by businesses, and the due diligence that used to accompany applications for credit seemed to be cumbersome and unnecessary. This led to the advent of “liar” loans (formerly known as stated income loans) and NINJA loans (no income, no job, or assets).

Of course, this unquenchable greed for more and more, both by American consumers and businesses eventually reached a tipping point. When that tipping point was reached and the level at which it was reached will be debated for decades to come. However, once that point was reached, home prices fell from their stratospheric heights and credit lines to individuals and businesses eventually dried up. Layoff announcements came from virtually all industries and some companies found themselves fighting for their very existence— some of which had been in business for several decades if not for more than a century.

Families that once enjoyed the great comforts of large homes, new cars, and new toys suddenly found themselves unable to pay for these items. To this day, many families remain in the same situation, watching these great possessions of life being repossessed by creditors.

It has been sad to watch how the American economy has fallen during the past several quarters. Individuals have seen their fortunes reduced significantly and those who had all their assets with notorious swindlers such as Bernie Madoff and others have seen their fortunes crumble to almost nothing.

Despite the economic hardships and challenges that many individuals and families are facing today, this economic downturn may produce several benefits to our economy and to our nation.

- New generations experience economic hardships: Members of Generation X (those born between 1961 and 1981) and Generation Y (those born between 1981 and through the late 90s) are living through the first significant overall economic challenge of their young lifetimes. Those who are a part of the Baby Boomer Generation, most of whom represent the parents of Generations X and Y, lived their adult lives during the days of extreme inflation during the 1970s and some of the corresponding economic weakness that occurred at the height of the Vietnam War.

Living through extraordinary financial times can and will bring an overall cautious approach to saving, budgeting, and spending. When you have had, as in the case of Baby Boomers, a mortgage that was at double-digit levels while the rate of inflation was skyrocketing at upwards of 13% by 1974 and remained largely at double-digit levels through the 1970s, you may very well recognize that debt can overwhelm a family. That is a lesson that many have learned the hard way in recent months.

- People are saving more: Since the end of the Great Depression, Americans have historically saved around 7% of their income. Over the past few years, we have seen that rate reduced to virtually 0%. However, since the economy has deteriorated, savings levels have increased.

The Commerce Department reported that the fourth quarter of 2008 showed the highest level of personal savings among American households since shortly after the 9/11 terrorist

attacks. Early 2009 statistics from the Commerce Department show that savings rates have climbed to over 4%.

Consumer spending by Americans accounts for about 70% of economic growth in this nation. While saving money by consumers, as opposed to spending it, actually hurts the economy in the short-term, it is beneficial in the long run. Consumers carry less debt, have liquid assets in the event of unforeseen circumstances (job loss, illness, etc), and are better positioned to make large purchases without incurring any debt or at least with less debt.

- Life is about more than possessions: Recall the words of the apostle John recorded in 1 John 2:15-17, “Do not love the world or the things in the world. If anyone loves the world, the love of the Father is not in him. For all that is in the world – the lust of the flesh, the lust of the eyes, and the pride of life – is not of the Father but is of the world. And the world is passing away...”

We have all seen it. Our 401(k)s are not what they once were and our retirement dates may have been pushed back by several years. Those reserve funds that we had for a rainy day are sapped. The job that we thought was secure is now gone. The list could go on.

All of this provides an opportunity for all of us to reprioritize our lives and again remind ourselves what is important in life –our faith, our family, and our core values. So, while we are living during difficult economic times, there are some benefits that are occurring. The people of this nation are becoming more financially savvy and the savings rate has risen to a respectable and healthy level. Most important, however, is that we have seen how quickly money and possessions can vanish, thus again teaching us to focus our efforts on things eternal.

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