

- [Autos](#)
- [News](#)
- [Fairfield County Life](#)

- [Jobs](#)
- [Autos](#)
 - [Video](#)
- [Real Estate](#)
- [Classifieds](#)
- [Marketplace](#)
 - [Directories](#)
 - [Hot Deal](#)
 - [Today's Ads](#)
 - [Special Sections](#)

[Business](#)


The 'Paradox of Thrift' -- Saving is great, but economy needs more spending




Published: Wednesday, March 09, 2011

0


0

Recommend

 share

[Share This](#)


0

By Frank Szivos

Americans are saving more now and paying off debt, but the economy needs them to start spending more. Huh?

Philip Lane, professor of Economics at Fairfield University, labels this dilemma, the Paradox of Thrift. In other words, it's good that more consumers are saving and paying off debt, but the economy needs an infusion of spending to revive it. Consider that consumer spending makes up 70 percent of the American economy.

"More people have switched from a plastic mentality to a cash mentality," Lane said. "But it creates a problem for the economy. What might be good for the individual is not necessarily good for the whole."

But why the sudden urge to save when consumer savings was minimal as recent as 2007? During the economic recession, most consumers have taken a financial beating, making them less incline to spend as they did during better days.

"A lot of folks saw their 401k's or retirement plans negatively affected the last couple of years," Lane said. "There's a lot of uncertainty. Many people have lost their jobs or are close to losing them and have seen the values of their homes fall. Many are paying down debt, reducing their debt to income ratio."

<http://www.minutemannewscenter.com/articles/2011/03/09/westport/business/doc4d77b14...> 3/14/2011

Even though the economy is heavily dependent on consumer spending, Anthony Macari, professor of Finance and Director of the Sacred Heart University MBA Program, sees increased savings as a good thing overall.

The U.S. Department of Commerce announced that consumers are saving significantly more money now than they did before the recession began. In June, Americans put aside an impressive 6.4 percent of their income after taxes. By comparison, they saved less than 2 percent throughout most of 2007.

In most cases, consumers are paying off credit card debt, scaling back spending and shopping. The recession has imposed a new frugality.

Macari sees consumers saving their way into a position of strength for when the economy does pick up. In that case, they will have lower debt and can leverage that for purchases when their feeling more secure about their jobs and overall financial picture. He admits that mind set could slow the economic recovery, but pay off in the long run.

"By saving, consumers are putting themselves into a stronger position when the economic recovery kicks in," Macari said. "If they pay down mortgages and credit cards, it's a necessary step to get back to a growth scenario. Yes, it can slow the economy a bit. But when they're more confident, they will be in a better position to go out and buy."

This belt tightening was a painful, but positive step for the country, economists agree. But when too many are saving at the same time, it can plunge the economy into a free fall. Lane points out that the government stimulus was necessary to encourage spending, but many consumers pocketed the government stimulus or paid off existing debt instead of spending it on goods and services.

However, it obviously will take more than a government hand out to restore consumer confidence and open their pocketbooks. While the economy showed a stronger pulse, the political unrest in the Middle East has exploded oil prices with a barrel of oil topping off at \$105 a barrel. In turn, this rise has inflated gas prices to around \$3.65 and climbing.

"There is good news about the economy," Lane said. "We're seeing pockets of growth. But we're still having setbacks like the Middle East."

As an example of an improving economy, the unemployment rate has dipped slightly to 9 percent down from 10 percent. For February, 130,000 new jobs were created. However, Lane points out that the economy needs closer to 300,000 new jobs per month to stimulate long term growth. Manufacturing and construction have also shown modest growth as well as the health care industry.

Lane thinks economic recovery is likely to come from many areas rather than a major economic driver. He foresees small businesses and industries improving and eventually hiring more workers.

"There's no single driver in Connecticut for economic recovery," Lane said. "We're looking at a broad spectrum of jobs being created across the board. It will come a little bit from everywhere."

Macari looks to cash-rich corporations to start spending and hiring more workers soon, once consumer demand begins to rise. He notes that corporations are estimated to have banked \$1.24 trillion during this recession, creating a vast resource that would stimulate the economic recovery.

But will consumers find the shopping bug again that would improve the economy? Probably not at the level prior to the recession, which could be a good thing. A gradual loosening of consumer spending will help drive an economic recovery.


"As people feel there's a light at the end of the tunnel, and begin to spend more, corporations will start rebuild inventories and hire people," Macari said. "There are some positive developments. But you're not going to see free spending. That's a good thing, too."

• [Return to Paging Mode](#)

Reader Comments »
[View reader comments \(0\)](#) » [Comment on this story](#) »

Recommend Be the first of your friends to recommend this.

share



[Share This](#)

AdChoices

GET OUR MOST ATTRACTIVE DEAL... FOR LIFE.



With 2 year agmt. Plus taxes & fees. Speed from 768 kbps to 1 Mbps.

INTERNET PRICE FOR LIFE



[Learn More](#)

LEGAL

RECOMMENDED FOR YOU

- ▶ [Police blotter for March 14](#)
- ▶ [Report: New Haven custodians staring down poverty](#)
- ▶ [JAPAN EARTHQUAKE: Death toll may soar past 10,000 ...](#)
- ▶ [Malloy sees leaner prison system](#)
- ▶ [JAPAN EARTHQUAKE: Tide of 1,000 bodies washed up ...](#)
- ▶ [Judge tosses suit claiming retaliation by ...](#)

-- SPONSORED LINK --
[Owl kicked by Panamanian defender Luis Moreno dies of shock | Football](#)
(From DailyMe.com)

Powered by  newstogram

FIND A LOCAL BUSINESS

Search

Categories GO



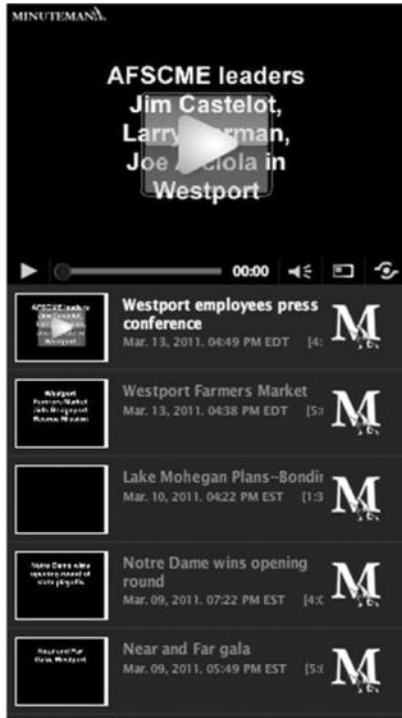
Spacious Victorian
Litchfield, CT

Restored Colonial
Washington, CT

Click photo for property details.

**Litchfield Hills** | **Sotheby's**
INTERNATIONAL REALTY
LAKEVILLE - LITCHFIELD
KENT - WASHINGTON DEPOT

Latest Videos



More Videos



Good Living (entertainment)

- [After A Long Winter, the 13th Annual Garden Expo Heralds Spring](#)
- [Give peace a chance](#)
- [Easton Boy Scout Troop 66 hosting annual breakfast](#)
- [Yale Whiffenpoofs to perform in Fairfield](#)

- [Objectively Speaking at The Bruce S. Kershner Gallery](#)
- [The Quick Center for the Arts presents two versions of 'Frankenstein'](#)



- [Smart Consumers Turn Down Identity Theft, Fraud Protection Plans](#)
- [Credit Card Issuers Using More Reward Offers](#)
- [AMEX Teams Up With Foursquare](#)



See wrong or incorrect information in a story? Tell us here



CAPTCHA:

Featured Events Flyers

Watch this space for local events flyers!

- [Four Brothers and Xenia Online Menus and Special Offers!](#)
- [January Specials at Norwalk Mattress Co. Factory Store!](#)
- [Camp Gan Israel Summer Camp Planning, The Best that Summer can offer!](#)



Community Calendar

March 2011

Su	M	Tu	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

Legend:

No events

Events listed

Recent Activity on Facebook



After A Long Winter, the 13th Annual Garden Expo Heralds Spring - Entertainment - Minuteman News Cen

16 people shared this.



March Monday Madness: Catching a wave of fun on Jennings Beach by changing the rules - Fairfield - MI

2 people shared this.



Pomeranian dog fatally attacked by coyotes in Black Rock Turnpike backyard - Fairfield - Minuteman N

8 people shared this.

 Facebook social plugin

Photo Galleries



- [View more photos from Westport Minuteman](#)
- [Order Photo Reprints](#)

Blog Center



[Westport Observer](#)

There's a lot going on in Westport, and a lot to comment upon. Our aim is objectivity, with a point of view.

Latest Entries

- [He wasn't always the skunk at the garden party](#)
- [Brown bag lunch, hold the sandwiches](#)



[Between the Lines](#)

Fairfield is a town full of interesting people, places and things to see and do. This blog is the place to share what you know about our town.

Latest Entries

- [Black Rock Station: Wish for the New Year](#)
- [On the subject of bows](#)



[Just Thinking](#)

From Fairfield County to national sports stage.

Latest Entries

- [Observations about the college ranks](#)
- [BCS - Come On, Man](#)



- **Sections:**
- [Obits](#)

- [Video](#)
- [Jobs](#)
- [Autos](#)
- [Real Estate](#)
- [Classifieds](#)
- [Marketplace](#)
- [Special Sections](#)

• **Services:**

- [Advertise With Us](#)
- [Subscribe](#)
- [Pick Up Locations](#)
- [Place an Ad](#)
- [Contact Us](#)
- [Member Center](#)
- [Public Notices](#)
-  [RSS Feeds](#)

• **Minuteman News Center Network:**

- [Fairfield Minuteman](#)
- [Westport Minuteman](#)
- [Good Living](#)
- [Minuteman News Center](#)
- [CTCentral.com](#)

• **Housatonic Media Group:**

- [Housatonic Times](#)
- [Litchfield County Times](#)
- [LCT Magazine](#)
- [Passport Magazine](#)

• **CT Central Network:**

- [New Haven Register](#)
- [Register Citizen](#)
- [Middletown Press](#)
- [Connecticut Bride](#)
- [Connecticut Magazine](#)

© Copyright Minuteman News Center, a [Journal Register Property](#) & part of Journal Register CT -- All rights reserved | [Our Publications](#) | [About Our Ads](#) | [Privacy Policy/Terms of Service](#)

Minuteman News Center (minutemannewscenter.com)

Westport > Business

The 'Paradox of Thrift' -- Saving is great, but economy needs more spending

Wednesday, March 9, 2011

By Frank Szivos

Americans are saving more now and paying off debt, but the economy needs them to start spending more. Huh?

Philip Lane, professor of Economics at Fairfield University, labels this dilemma, the Paradox of Thrift. In other words, it's good that more consumers are saving and paying off debt, but the economy needs an infusion of spending to revive it. Consider that consumer spending makes up 70 percent of the American economy.

"More people have switched from a plastic mentality to a cash mentality," Lane said. "But it creates a problem for the economy. What might be good for the individual is not necessarily good for the whole."

But why the sudden urge to save when consumer savings was minimal as recent as 2007? During the economic recession, most consumers have taken a financial beating, making them less incline to spend as they did during better days.

"A lot of folks saw their 401k's or retirement plans negatively affected the last couple of years," Lane said. "There's a lot of uncertainty. Many people have lost their jobs or are close to losing them and have seen the values of their homes fall. Many are paying down debt, reducing their debt to income ratio."

Even though the economy is heavily dependent on consumer spending, Anthony Macari, professor of Finance and Director of the Sacred Heart University MBA Program, sees increased savings as a good thing overall.

The U.S. Department of Commerce announced that consumers are saving significantly more money now than they did before the recession began. In June, Americans put aside an impressive 6.4 percent of their income after taxes. By comparison, they saved less than 2 percent throughout most of 2007.

In most cases, consumers are paying off credit card debt, scaling back spending and shopping. The recession has imposed a new frugality.

Macari sees consumers saving their way into a position of strength for when the economy does pick up. In that case, they will have lower debt and can leverage that for purchases when their feeling more secure about their jobs and overall financial picture. He admits that mind set could slow the economic recovery, but pay off in the long run.

"By saving, consumers are putting themselves into a stronger position when the economic recovery kicks in," Macari said. "If they pay down mortgages and credit cards, it's a necessary step to get back to a growth scenario. Yes, it can slow the economy a bit. But when they're more confident, they will be in a better position to go out and buy."

This belt tightening was a painful, but positive step for the country, economists agree. But when too many are saving at the same time, it can plunge the economy into a free fall. Lane points out that the government stimulus was necessary to encourage spending, but many consumers pocketed the government stimulus or paid off existing debt instead of spending it on goods and services.

However, it obviously will take more than a government hand out to restore consumer confidence and open their pocketbooks. While the economy showed a stronger pulse, the political unrest in the Middle East has exploded oil prices with a barrel of oil topping off at \$105 a barrel. In turn, this rise has inflated gas prices to around \$3.65 and climbing.

"There is good news about the economy," Lane said. "We're seeing pockets of growth. But we're still having setbacks like the Middle East."

As an example of an improving economy, the unemployment rate has dipped slightly to 9 percent down from 10 percent. For February, 130,000 new jobs were created. However, Lane points out that the economy needs closer to 300,000 new jobs per month to stimulate long term growth. Manufacturing and construction have also shown modest growth as well as the health care industry.

Lane thinks economic recovery is likely to come from many areas rather than a major economic driver. He foresees small businesses and industries improving and eventually hiring more workers.

"There's no single driver in Connecticut for economic recovery," Lane said. "We're looking at a broad spectrum of jobs being created across the board. It will come a little bit from everywhere."

Macari looks to cash-rich corporations to start spending and hiring more workers soon, once consumer demand begins to rise. He notes that corporations are estimated to have banked \$1.24 trillion during this recession, creating a vast resource that would stimulate the economic recovery.

But will consumers find the shopping bug again that would improve the economy? Probably not at the level prior to the recession, which could be a good thing. A gradual loosening of consumer spending will help drive an economic recovery.

"As people feel there's a light at the end of the tunnel, and begin to spend more, corporations will start rebuild inventories and hire people," Macari said. "There are some positive developments. But you're not going to see free spending. That's a good thing, too."

URL: <http://www.minutemannewscenter.com/articles/2011/03/09/westport/business/doc4d77b14d5fd3b615192367.prt>

© 2011 Minuteman News Center, a **Journal Register** Property