6. Buying alone: how the decreasing American happiness turned into the current economic crisis

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INTRODUCTION

Capitalism is an unstable economic system. Although it often generates economic growth over the long term, this growth does not take place in a continuous fashion, but rather in a cyclical manner, that is, alternating periods of economic boom and stagnation and, at times, deep recession.

Many argue that the crisis that began in the summer of 2007 is one of the typical cyclical crises of capitalism. In its extraordinary dimension it is a 'black swan', an extremely unlikely event. The message implied by these interpretations of the crisis is: we do not need to change things. The party is simply on hold for the moment, because the jukebox is broken. But it will be mended and the dancing will start again, as thrilling and fun as before.

The thesis I contend, instead, is that the present crisis is not simply a cyclical one and it does not merely signal the instability of capitalism. It is the entire type of capitalism that became dominant, especially in the US in the last few decades, that is in crisis. My message is: the music is, after all, not that great at this party, even when the jukebox works and, in any case, if we don't change the music, the jukebox will break down over and over again.

In fact, the current crisis is the epilogue of the type of capitalism that I have called NEG (negative endogenous growth) capitalism. The economic growth generated by NEG capitalism is fraught with dangers to our well-being, our interpersonal relationships and the way we use our time, not to speak of the environment. In my explanation of this crisis, certain well-known long-term trends peculiar to US society – the decline in social capital and happiness and the increase in materialism and working hours – will appear as intertwined aspects of a social crisis that laid the foundations of the economic crisis. These foundations, under certain financial market conditions, can lead to global instabilities and recessions. Such conditions had matured enough in the summer of 2007 to trigger the explosion of the crisis.

The chapter is organized as follows. The section that follows underlines the extraordinary dimension of American consumerism, despite the fact that – in the past few decades – powerful forces were driving the American economy towards a limitation of its consumption potential. The chapter continues by emphasizing that American consumerism led to an enormous debt for American households. The global crises grew out of this indebtedness of American consumers. The chapter next discusses the most popular current explanations of this debt, underlining their limitations. The chapter then exposes a theory of consumerism – NEG – based on the decline of common goods, particularly interpersonal relationships, which forces people to buy private goods to compensate for the declining common ones. The chapter goes on to concentrate on the causes of the decline of relationships, identified in the modern evolution of cities and in the diffusion of materialistic values. In turn, the spread of materialism is fostered both by the diffusion of market relationships and by the media, in particular by advertising. After that, the chapter examines whether the US showed any evidence of economic growth of the NEG type over the past few decades. Comparisons with Europe suggest that the rooting of NEG processes appears to be much stronger in the US. The explanation of this difference is considered. Unlike in Europe, materialism has spread greatly in the US over the past few decades. This can be explained by the comparatively much greater pressure exerted on Americans by the advertising industry and by the relatively large penetration of market relationships into American society. In addition to these factors, the remarkable expansion of American cities in the past 20 years followed an urban model – the low-density city – that has a particularly damaging impact on social relationships. The chapter then discusses the financial mechanism that transformed an American crisis into a global infection, before it summarizes and concludes.

PROLOGUE: THE FORMIDABLE AMERICAN CONSUMER

The current crisis originated in the US, and from there it spread rapidly to the rest of the world. The premises for the crisis accumulated progressively during the decades preceding the crisis and are to be found in American consumerism. Let us first consider its extraordinary dimensions.

The formidable American consumer has been the engine of the global economy over the past two decades. Indeed, the American market absorbed a great mass of consumer goods produced in Europe and particularly in Asia. Yet there were powerful forces which tended towards containing the level of American consumption.

First of all was the loss of competitiveness of the American economy. The competition of Asian manufacturers brought about a sharp worsening in the US trade balance over the past 20 years. US imports progressively outstripped exports. From 1996 to 2007, an invasion of foreign products – in particular Chinese – caused an increase of more than 600 per cent in the trade deficit.[1] As a consequence of the foreign competition, the US industry was forced either to delocalize abroad or to downsize. This means that a portion of the incomes of US manufacturers were transferred to foreign manufacturers.

Secondly, the increase in income inequality might have been expected to depress the consumption potential of the US economy.[2] In an economy that had allocated increasingly larger shares of its GDP to those who were already affluent, the rise in wages had been relatively slow and the middle class had thinned. Other things being equal, this should have depressed actual consumption, given that the driving force of mass consumption is the middle class. Instead, as illustrated in Figure 6.1, US consumption grew at a faster rate than that of wages.

In short, US consumption continued to grow at a substantial pace, even though income was being redistributed from US workers to foreign ones and to owners of capital. This increase in consumption is mirrored in the decline in the personal saving rate since the 1980s (see Figure 6.2).

Figure 6.3 clarifies the peculiarity of the American attitude towards consumption by showing that not only did the US experience a period of increasing consumption, in particular since the second half of the 1990s, but also that its private consumption-to-GDP ratio remained persistently and remarkably higher than in major countries of mainland Europe.

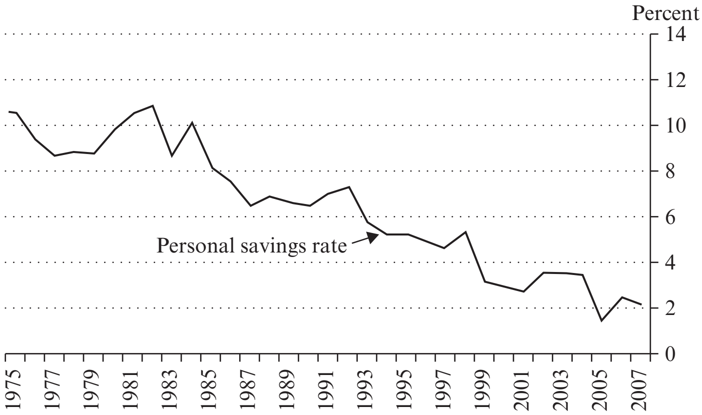
The patterns in Figure 6.3 are certainly affected by the fact that public consumption has typically constituted a smaller portion of GDP in the US compared to mainland Europe. However, even when adding public to private consumption, total US (private plus public) consumption results in a substantially larger share of GDP than in European countries, as can be seen in Figure 6.4.

Why did average Americans continue in their frenzied race to increase their consumption? And how did they finance this spending spree? In the next sections, I will attempt to give some answers to these questions.

Note: Private consumption ('Priv. Cons.'), measured on the right axis, grew more than wages including benefits (right axis). Excess consumption ('Excess Cons.') is calculated as private consumption less total wages (left axis). All numbers are in 1980 dollars per household.

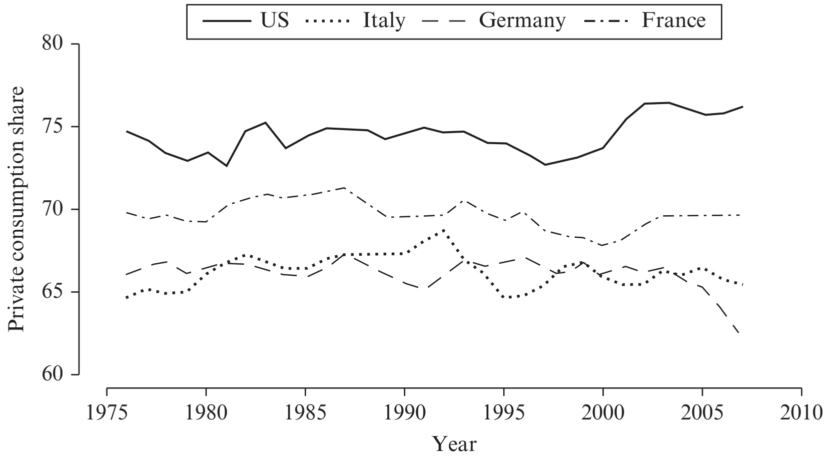
Source: Jagannathan et al. (2009).

Figure 6.1 *Private consumption, wages and excess consumption*



Source: McCully (2011).

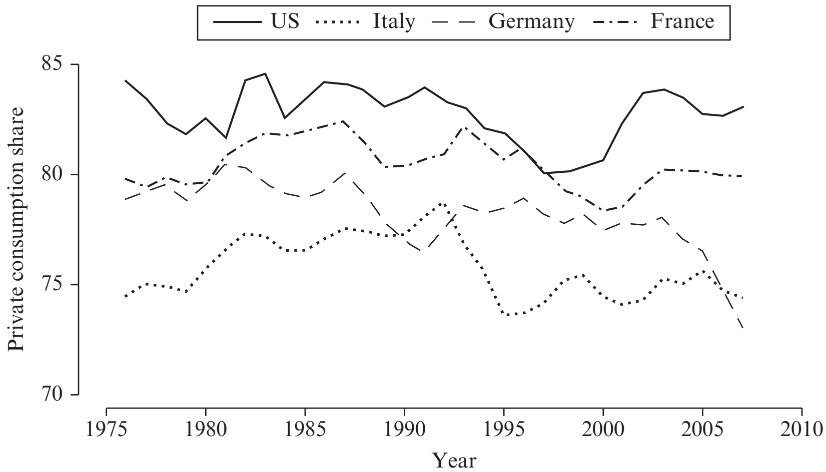
Figure 6.2 *Personal saving rate as a percentage of disposable personal income*



Note: Consumption is expressed in PPP GDP per capita (2005 constant prices).

Source: Heston et al. (2011).

Figure 6.3 Private consumption-to-GDP ratio across countries



Note: Total consumption is the sum of private and government consumption expressed in PPP GDP per capita (2005 constant prices).

Source: Heston et al. (2011).

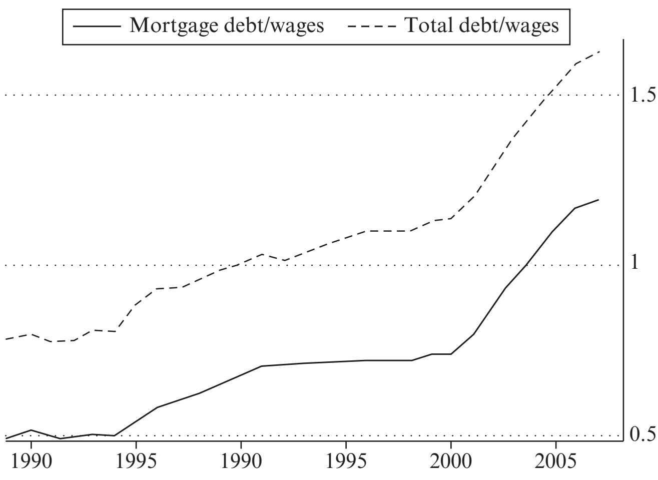
Figure 6.4 Total consumption-to-GDP ratio across countries

THE FORMIDABLE DEBT OF THE AMERICAN CONSUMER

The answer to the second question is simple and well known: the consumer spending binge was financed by accumulating an enormous debt. American households bought larger and nicer houses, and more consumer goods, than they could actually afford. Credit cards and mortgages allowed millions of Americans to spend beyond their means.

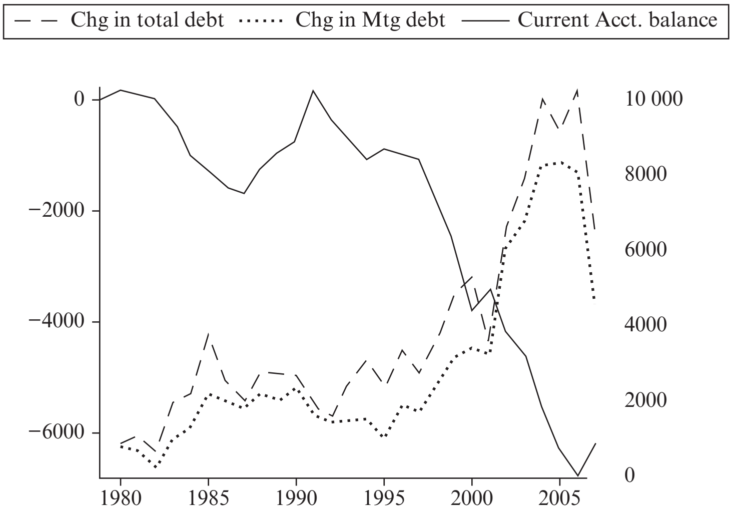
Given that a growing share of the American incomes were flowing to the more affluent and that, consequently, the salary of Ms or Mr Jones – the average American – was rising at a rather weak rate, Americans financed their feverish consumption race by falling deeper and deeper into debt. As a result, the US household debt grew much faster than wages, more than doubling the ratio of total debt to wages in less than 30 years (Figure 6.5).

The weakening of Ms or Mr Jones's income, owing to the loss of competitiveness of the American economy, provoked the same type of reaction – to borrow more and more. Figure 6.6 shows how the indebtedness of US households rose in parallel to the increase in the current account deficit.



Source: Jagannathan et al. (2009).

Figure 6.5 Ratio between US household debt (mortgage debt and total debt) and wages



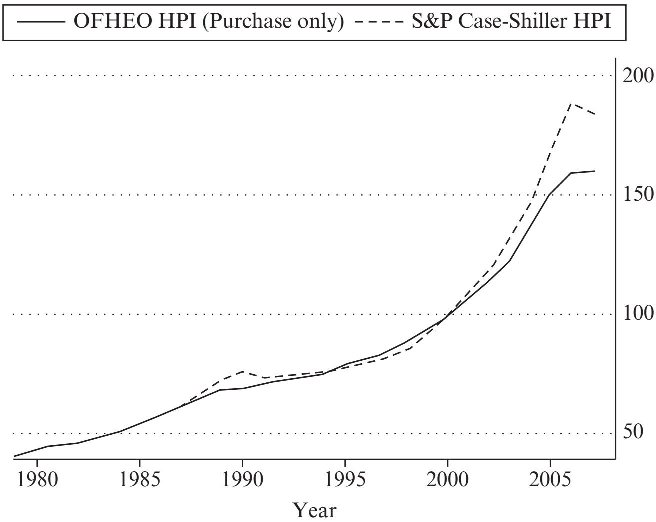
Note: Change in US household total debt ('Chg in total debt') and in mortgage debt ('Chg in Mtg debt'), both on the right axis: they increase, while the current account balance ('Current Acct. balance') worsens its deficit (left axis). The current account balance figures are mainly affected by the trade deficit. Figures are in USdollars per household.

Figure 6.6 Change in US household total debt, mortgage debt and current account balance

WHY DID AMERICANS BECOME INCREASINGLY INDEBTED?

This huge US private debt is at the base of the crisis that began in the summer of 2007 with the default of sub-prime mortgages. In fact, everything that happened afterwards – the collapse of the US financial system, the contagion passed on to the rest of the world, the credit crunch – was caused, as we shall see in the section 'Epilogue: the implosion of NEG capitalism' below, by the spread of a disease that grew out of the indebtedness of American consumers.

Accordingly, to explain the crisis one must begin by explaining the existence of this debt. And the explanation is not obvious, because it is caused by an urge to consume. We are not talking about a population that we would expect to be burdened by unsatisfied basic needs. Although poverty does of course exist, the average American consumer is one of the most affluent in the world. It is not clear why Ms or Mr Jones should feel the need to borrow more and more to finance consumption that goes far



Note: HPI = home price index.

Source: Jagannathan et al. (2009).

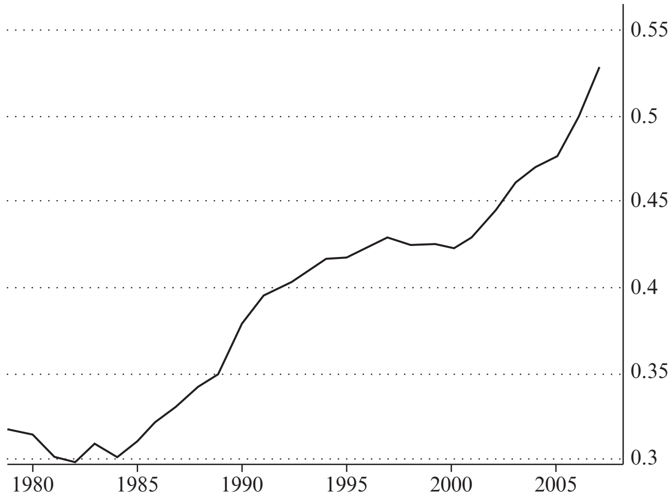
Figure 6.7 Home price indexes

beyond his or her means. So, to explain the current crisis, we must first explain the consumption spree of an opulent economy. What induced affluent consumers to fall deeply in debt in order to buy more and more?

A possible answer lies in the myopic nature of human beings, in particular in the short-sightedness of their decisions (Hämäläinen, this volume, Chapter 2). Another popular answer – which tries to reconcile the evidence with the assumption of rationality of human beings typical among economists – is based on the illusion of wealth created by the inflation of real estate values. Figure 6.7 illustrates the constant increase in the price of US homes over the past 30 years.

According to this explanation, the constant increase in the prices of homes induced their owners to believe that they were growing richer and that, therefore, they could afford to borrow more and more. In reality, they were dealing with a real estate bubble, which ultimately burst. However, US mortgage debt grew much faster than real estate values (Figure 6.8), with mortgage debt used also to finance non-housing consumption. This suggests that the consumerism was largely fuelled by something other than the illusion of wealth created by the residential bubble.

A further widespread explanation focuses on the exceptional abundance



Source: Jagannathan et al. (2009).

Figure 6.8 Ratio between the value of US residential mortgages and residential home values (primary residence only)

of low-cost credit available in the US, an explanation I will discuss later. But neither this nor any of the other explanations examined so far reveal why the credit demand was motivated by the need to consume. Instead of using it to support their consumption spree, Americans could have used their access to credit to replace, in part, their labour income and so to diminish their working time and increase their leisure time. Yet they continued to buy. Why? These explanations offer no answers to this question.

BUYING ALONE: NEG CAPITALISM

My answer is that this debt is the result of the strong pressure for consumption exerted by the American socio-economic structure and culture. According to a theory which my co-authors and I have presented elsewhere (Bartolini and Bonatti 2002, 2003, 2008; Antoci and Bartolini 2004), consumerism is generated by a societal model called NEG capitalism. In this and in the following section, I summarize the general features of NEG capitalism, while in the section 'NEG capitalism in America' below I focus on the US, arguing that the type of capitalism that took root there over the past 30 years is precisely the NEG capitalism referred to above.

To understand how NEG capitalism works one must consider first that there are common goods that are important for our well-being which we cannot buy. I refer, first of all, to the quality of social and emotional relationships and of the environment. We can think of relationships as a common good, such as air quality, that we share with someone else. In a city, everyone breathes the same air, and this air cannot be privately appropriated. Similarly, a city incorporates a network of relationships between people. And both of these, relationships and air quality, are free goods.

Interpersonal relationships are generally treated in social sciences by using the concept of social capital. More precisely, the latter is a measure of one's networks, personal connections, social involvement, civic engagement and attitudes, such as honesty, solidarity and trust, towards others (Helliwell, this volume, Chapter 5).

The decline in these common goods forces us to buy private goods. As I have said elsewhere:

> In fact, money offers many forms of protection – real or illusory – from the poverty of relationships. If the elderly are alone and ill, the solution is a caregiver. If our children are alone, the solution is a baby-sitter. If we have few friends and the city has become dangerous, we can spend our evenings at home, fulfilled by all kinds of home entertainment. If our frenzied lives and the unliveable climate of our cities distresses us, we can lift our spirits with a holiday in some tropical paradise. If we quarrel with our neighbours, we can hire a lawyer to defend ourselves from their harassment. If we don't trust someone, we can pay to have him monitored. If we are afraid, we can protect our possessions with alarm systems, security doors, private guards, etc. If we are alone, or if we have difficult and unsatisfying relationships, we can seek a form of identity-making redemption in consumption, success or our work.
>
> Advertising has charged itself with the task of obsessively reminding us that if we are afraid of not being members of this society, of being losers, the reassurance for all our fears is to buy: 'I consume, therefore I am.' And besides, in advertising, products are perfect substitutes for love. In the rose-colored world of advertising, products require our love. But in the real world, they obstinately refuse to exhibit any emotion.
>
> All these private goods protect us from the decay of things that were once common and free: a liveable and low-crime city, with more trust and communication among neighbors, with a social fabric made of neighborhoods, of communities, one that provided company to children and the elderly. Or, at least, they promise to protect us, as does the advertising industry with respect to our fears of exclusion, fears which flourish in a world of rarified and difficult relationships . . . The same argument applies to the quality of the environment. Vacations in unspoiled environments offer us the clean air, seas and rivers that we can no longer find in our unlivable cities. (Bartolini, forthcoming)

In sum, we have the possibility of defending ourselves from the degradation of the environmental or social conditions that surround us by buying something. In other words, we can offset the deterioration of what we have in common with private wealth. This contrast is a typical characteristic of 'affluent societies' (Galbraith 1962).

Naturally, to be able to sustain these 'defensive expenditures', we need to work and produce more, which increases GDP. In other words, our reactions to the decay of the environment and of our relationships generate economic growth. Such reactions are a driving force of the economy. When social ties and the environment decline, the economy of solitude, fear and evasion thrives.

But what fuels the decline of common goods? Growth itself can have this effect. As far as the environment is concerned, this takes place as a result of the increase in pollution related to higher levels of production and consumption.

Growth can also tend to 'pollute' our relationships, although it doesn't necessarily have to have this effect. It may do so, if the social, economic and cultural organization exhibits certain characteristics. It is these characteristics which define NEG capitalism, and I will discuss them in more detail later.

If growth has a negative effect on common goods, then a self-feeding mechanism is generated where environmental decay and the deterioration of our relationships produce economic growth and this, in turn, produces an even greater environmental decay and a further deterioration of our relationships. This is the catch-22 of growth that is generated by NEG capitalism. The result of this self-feeding process, based on the substitution of common goods with private goods, is growing economic affluence associated with poorer relationships and environmental deterioration.

This mechanism creates formidable consumers, because it creates expensive lives. In fact, under these conditions, growth generates an ever rising need to consume. Instead of creating consumers who are increasingly satiated because of the greater amount of goods purchased, growth drives them towards a consumption spree fed by the desire to defend themselves from the degraded conditions of the relationships and the environment around them. This generates a pressure to consume even in opulent economies.

NEG capitalism creates individuals whose motivation to consume is fuelled by the fact that they live in a society in which less and less can be accessed free. In a society in which opportunities for well-being that do not pass through the market are increasingly scarce and in which well-being can only be bought, individuals are thrust into a feverish pursuit of money and consumption. This is a possible explanation of the surprisingly unbridled consumerism of opulent societies. Yet this opulence is purely one of private goods. The other side of the coin is the poverty of common goods. It is the need to compensate this poverty which nourishes the urge for private opulence.

In addition to creating formidable consumers, this mechanism creates also formidable workers. Lives where a great deal of time and effort are dedicated to one's job are the other face of the growing need to consume.

In a world – such as the NEG one – in which the affluence of private goods is based on the desertification of common goods, economic growth has predictably disappointing effects on well-being. The increase in GDP misleads us on the evolution of well-being over time, since GDP measures private goods but not free commons. In a world of people who buy more and more, because they feel increasingly alone and have increasingly difficult relationships, well-being cannot increase.

As I have said:

> This is why the traditional view of growth tells only one part of the story, the bright part. The one according to which the luxury goods of one generation become the standard goods of the next generation and these, in turn, become the basic needs of the successive one. The history of economic growth obviously abounds with examples of this kind. But there is a dark side to this story that remains untold. It is the story of goods that are free for one generation, which become scarce and costly for the next generation and luxury goods for the one following that. The history of growth is full of these examples as well. Goods that were available for free, or almost so, to our grandparents and often to our parents, but that now have a cost, goods such as, for example, clean natural environments or simply human curiosity. (Bartolini, forthcoming)

WHAT CAUSES THE DECLINE OF RELATIONSHIPS?

Given that the decline of relationships plays such a crucial role in the growth process described above, it is natural to question its causes. In the following sections I will focus on the evolution of modern cities and the change in the values of individuals.

The Modern City: Economic Prosperity versus Social Poverty

Cities were originally conceived as places of social bonding. For 5000 years, social aggregation was at the core of the urban project. But the evolution of the modern city has drastically worsened the quality of those spaces that promote the creation of relationships. This kind of development has made our cities an aggregation point solely for production and consumption. At present, our cities are environments designed for working and buying, and not for meeting people. In fact, they provide a scarcity of opportunities for building relationships and very few low-cost meeting places, while simultaneously offering a wealth of costly pastimes for one's leisure time. Yet, to indulge in these, one needs money. Therefore the urban environment is the emblematic example of the motivation to make money generated by the scarcity of our relationships (Bartolini, forthcoming).

The cornerstones of this type of urbanization are the organization of space and mobility. Relationships require, first of all, good-quality common spaces. The town square around which European cities were originally built was *the* place for human relationships. For a long time, cities slowly expanded by adding new neighbourhoods around new squares. In such a fashion, good-quality public pedestrian areas continued in their function of offering opportunities for creating relationships that can offset, at least in part, income inequalities.

The problem is that the quality of common spaces has worsened in Western cities, with the result of making the opportunities for creating relationships – in particular during one's leisure time – dependent on income. The impact of the automobile played a decisive role in this process. Up to a short while ago, cities were intended for people. All city streets were pedestrian. Then, all of a sudden (a very short time in historical terms) cars appeared, transforming the most human of all environments into a dangerous place for humans. The automobile is a menace for pedestrians: each year, all over the world, tens of thousands of people are run over on city streets.

The decline in the quality of common spaces due to private traffic has had the effect of weakening the social fabric (Peñalosa 2008; Montgomery 2013). This destruction forces us to sustain expenses, such as, for example, those for raising children. The increase in traffic brought an end to children's freedom to move around alone in their neighbourhoods, a possibility that was generally widespread in European cities up to the 1950s or 1960s. This radically changed the children's way of life, making it more costly for their parents. Today's children spend a lot more time at home, and when they are outside they have to be constantly supervised by adults. Their chances for independent social experiences have been reduced and have become dependent on the decisions of adults. To what extent is the money we spend on toys aimed at providing entertainment and companionship to children who are increasingly alone? To what extent has the use of babysitters become a necessity for families, because it has become impossible for our children to move independently around cities?

A recent academic paper about urban environments became immediately well known, because it supplied the most compelling evidence to date linking the different degrees of walkability of various neighbourhoods to the social capital and well-being of their inhabitants (Rogers et al. 2010).

Using a case study approach, the authors argued that the generation and maintenance of social capital are facilitated by living in a walkable community. Residents of three communities in New Hampshire, living in neighbourhoods of varying built forms and, thus, varying levels of walkability, were surveyed about their levels of social capital and well-being. Comparisons between the more and the less walkable neighbourhoods showed that the more walkable a neighbourhood, the higher the levels of social capital and well-being.

The authors concluded that the land-use design and the physical infrastructure of a neighbourhood or a region are what provide the conduits for individuals to meet, thereby increasing their social capital. A neighbourhood that provides residents with easy access to municipal infrastructure, such as post offices, town parks and playgrounds, coffee shops, restaurants, barber's shops and club meeting venues, will have high values of social capital.

The results of Rogers et al. (2010) support the view according to which communities are more resilient if they have a physical infrastructure that supports the interaction of residents. Walkability enhances social capital by providing the means and locations for individuals to connect, share information and interact with those whom they otherwise might not meet.

What did Rogers et al. (2010) capture here? They captured something that has recently become the focus of political debate in many cities. Indeed, a growing awareness of the importance of the quality of public spaces has given rise to remarkable political novelties in local elections. In the last decade, mayors of important cities, such as Bogotá, Paris and Mexico City, won elections following electoral campaigns that emphasized the need for radical reform of the quality of public spaces and transport.

Rogers et al. (2010) brought to light one of the many ways in which the urban environment affects our relationships and well-being. These aspects go far beyond walkability. The impressive review provided by Basu et al. (this volume, Chapter 7) includes: shared green spaces, small setbacks, front porches, common shared areas, parking spaces behind houses, community gardens, proximity of housing and services through mixed use, ample pavements, the possibility of watching nature from one's window and even the aesthetics of one's environment.

These aspects of living environments have received little or no attention in the way our cities have been designed in modern times. This is the reason why urban life has become the paradigmatic example of NEG processes: the modern city has become a powerful destroyer of goods such as relationships and the environment and, precisely for this reason, a powerful producer of economic growth.

A world in which silence, clean air, clean seas or rivers and pleasant walks have become the privilege of exclusive or uncontaminated locations and tropical paradises is a world in which people tend to expend considerable resources to escape from the unlivable environments they have created. It is a world in which escape has become a need. According to conventional economic wisdom, our expenditures for these evasions are a sign of economic progress. Yet it could be that those cyclical mass migrations we call summer holidays are not only signs of an increased living standard, but also a response to the deterioration in the quality of our life.

This is how cities have lost their original function of social bonding, inhibiting the formation of social networks and turning into centres of exclusion through the creation of profound inequalities. For these reasons, modern cities have become the pillar of a social organization that produces economic wealth, on the one hand, and poverty of relationships, environment and time, on the other.

Materialism Generates Poor Relationships

The diffusion of materialistic values is another plausible culprit for the decline of social relationships. Materialism is defined as a system of personal values ascribing great importance in life to extrinsic motivations and low priority to intrinsic motivations. The distinction between extrinsic and intrinsic motivations refers, respectively, to the instrumentality or lack thereof of the motivations for acting (Deci 1971). In fact, the term 'extrinsic' refers to motivations that are external to an activity, such as money or success, whereas 'intrinsic' refers to internal motivations, such as self-actualization, affection, human relationships, solidarity, civic engagement, and pro-social behaviours more generally.

The influence of materialistic values on the quality of our relationships is the focus of a vast number of social psychology studies. These studies show that the more materialistic an individual, the poorer the quality of his or her relationships.

Individuals with materialistic inclinations develop certain attitudes that form the basis of their poorer relationships with friends and loved ones. In particular, the tendency to 'objectify' the other, in other words the tendency to consider others as objects, does not favour the creation of fulfilling relationships. Objectification refers to the low levels of generosity, empathy, cooperation and genuineness (non-instrumentality) and the high levels of cynicism and mistrust that more materialistic individuals put into their relationships (Belk 1985; Kasser et al. 1995; Cohen and Cohen 1996; McHoskey 1999; Kasser and Sheldon 2000; Sheldon et al. 2000; Kasser 2002).

In other words, more materialistic individuals can be expected to have a reduced capacity to build satisfying relationships, that is, the capacity to build social capital. This makes the diffusion of materialism – which will be discussed later – a plausible culprit for the decline in social relationships.

Poor Relationships Generate Materialism

Materialism generates poor relationships, but the causality works in the opposite direction as well. Indeed, materialism thrives and finds nourishment when our relationships become scarce.

Many studies in social psychology support the view that the experiences of children in their relationships with their parents are important in determining their values as adults (Kasser et al. 1995; Cohen and Cohen 1996; Williams et al. 2000). These studies document that children with less caring and nurturing parents will tend more towards materialism as adults. The reason seems to be that less nurturing parents bring forth more insecure children, who, therefore, are more receptive to social messages that promise security and social approval through consumption.

In short, a poor emotional relationship with parents during infancy is associated with higher levels of materialism during adolescence and adulthood. Indeed, a lack of affection generates insecurity, and materialism is an answer to insecurity.

Remarkable evidence concerning the causality running from insecurity to materialism is provided by a study concerning 'terror management' (Kasser and Sheldon 2000). In this type of experiment, participants are asked to write about their own death (the condition of terror), whereas the control group is asked to write about music. The result is that the first group later exhibits significantly higher levels of materialism. Materialism is, therefore, a form of terror management, an answer to the insecurities generated by fear.

The researchers concluded that there is a circular effect that leads materialism and the scarcity of relationships to nourish each other. Materialism leads individuals to organize their lives in ways that do not allow them to fulfil their need for relationships, and this, in turn, leads these individuals to greater materialism.

The Market Economy Spreads Materialism

My thesis is that the main factors responsible for the dissemination of materialistic values are the economic system and the media.

The role of the economic system can be understood in the light of the theory of the crowding out of motivations (Frey and Jegen 2001; Thompson et al. 2010; Fang and Gerhart 2012). This theory was developed by social psychologists to explain those situations in which incentives have an opposite effect to that expected by economists.

Classic examples of this type of behaviour concern the unintended effects of the introduction of monetary compensations. If compensation is paid for donating blood, the amount of blood donated falls, instead of rising (Titmuss 1970). The establishment of fines for parents who pick up their children late from day care centres actually increases the number of latecomers, rather than reduces it (Gneezy and Rustichini 2000). Offering compensation for people willing to accept a toxic waste dump in their area in fact reduces the percentage of those in favour, instead of increasing it (Frey 1997).

In all these examples, the introduction of a monetary incentive reduces the willingness of people to behave in the way that is being encouraged, contrary to the expectations of economists.

The explanation advanced by the theory of the crowding out of motivations is that monetary compensation crowds out intrinsic motivations (Deci 1971; Deci et al. 1999). Donating blood for money is different from donating blood out of solidarity: the introduction of a monetary motivation for a donation replaces the motivation of solidarity and is not added to it. Establishing fines for latecomers undermines the motivation to pick up one's children on time out of a sense of responsibility. An offer of compensation for a waste dump undermines the motivation to accept it out of civic engagement.

In other words, the different motivations are not added together, but tend to replace each other. Extrinsic motivations tend to substitute for intrinsic motivations. The researchers believe that the reason why monetary compensation undermines intrinsic motivations is that it changes people's own perception of why they behave the way they do. To do something out of solidarity or civic-mindedness is different from doing it for money, and the two motivations cannot be added. Individuals do not add the 'whys' instrumental and non-instrumental of their actions. They tend to focus on a predominant 'why' when doing things.

This theory emphasizes important aspects of the way our brain functions. Indeed, the underlying issue for the substitution of motivations is the need of human beings to give a sense to what they do. Thus, giving a motivation to an action actually means giving it a sense.

The market economy creates an economic organization that relies only on extrinsic motivations. It is an organization that sets instrumental motivations as the basis for relationships between individuals. In other words, market relationships affect our perception of why we are in a relationship. They suggest that it is based on personal and material advantage.

Since the different motivations tend to replace each other the emphasis on extrinsic motivations obscures all those aspects of social life that depend on intrinsic motivations, above all that of relationships. The appeal to personal advantage as a motivation for relationships redefines the motivations for the relationships themselves, not sparing even intimate ones.

Given that materialism assigns a high priority to extrinsic motivations, the organization of economic relationships on the basis of these motivations tends to generate a system of materialistic values.

This is the principal dark side of the market. While it provides benefits in terms of economic prosperity, it also disseminates its disadvantages in terms of changes in people's values. And the extent to which it does this varies with the degree of penetration of market relationships into the social sphere. In short, the amount of market we inject into our social relationships has significant collateral effects, because it affects the diffusion of materialism.

The Media Promote Materialistic Values

The media, and in particular advertising, play a central role in stimulating the diffusion of materialistic values. This is pointed out by Juliet Schor (2005) – a leading scholar of advertising – in her book *Born to Buy*, on which this section largely draws.

Advertising has become increasingly sophisticated, heading towards the marketing of a lifestyle. This growing sophistication embraces the total awareness of the importance of non-material needs by those who work to promote the sale of material objects. In fact, advertisements are increasingly aimed at convincing people that buying provides them with non-material benefits, such as social inclusion, good relationships and, ultimately, well-being. This is why the creed of advertising people is not that of providing information on products, but that of creating an association between a product and positive emotions.

In order for the advertisement of a product to work, it must call to mind something other than the product itself. To be precise, it must call up an identity. The attempt to link personal traits to consumption has become the beacon of marketing research. An enormous amount of resources have been expended to discover what type of person buys a certain brand of soap instead of another, or what type of person is sitting inside a certain car instead of another. The predominant belief of adverting professionals is that consumption is a form of individual expression. The philosophy imparted is 'I buy, therefore I am'; the things we own are our 'extended self'.

The result of this obsessive stimulus to possess is the internalization of an existential message with the following import: 'If you feel insecure, inadequate, excluded, in short a loser, you'll feel better if you increase your consumption. The reassurance for your fears of exclusion, the guarantee of the fact that you are a member of this society, lies in buying.' Other types of solutions to this disaffection – such as buying less in order to have to work less and so be able to better nurture one's relationships – could probably work better, but they are not those suggested by the world created by advertising. Advertising touts that which can be sold, and no one sells time or affection.[3]

NEG CAPITALISM IN AMERICA

Many signs indicate that NEG capitalism may have put down solid roots in the United States and that it may have guided American growth over the past few decades. In comparison, NEG capitalism in Europe seems less entrenched.

The signs of NEG capitalism can be seen in the evolution of certain features of society over time. The NEG approach suggests that the more a society acts in a destructive fashion with regard to social capital, that is, the worse the trend of social capital, the worse the trend observed in well-being, and the higher the growth rates of GDP, of consumption and of work hours. Let us examine the trends of these variables in the United States:

- *Social capital*. Putnam (2000) pointed to a decline in social capital in the decades prior to his study, and evidence suggests that the trend continued for at least a few years after he published.[4] A series of indicators point, on the one hand, to an increase in solitude and communicative difficulties, in the sense of fear and isolation, in mistrust and in the instability of families and, on the other, to a decline in solidarity, honesty, civic engagement and participation in social networks (see Table 6.1).
- *Expenditures*. Economic growth rates have been greater in the US compared to the major Western countries over the past two decades, right up to the beginning of the current crisis (Bartolini, forthcoming). This growth was driven by the formidable dynamics of US consumption. Within this consumption, the trend of those expenditures used as a defence against the deterioration of relationships signalled a remarkable increase over the past decades. For example, the home entertainment sector experienced an impressive boom. At the same time, US expenditures in formal activities of

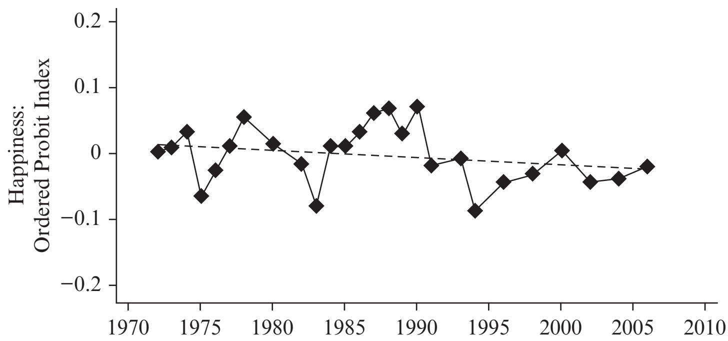
Table 6.1 Trends of US social capital 1975–2004, General Social Survey data

Marriages	−	Confidence in companies	−
Separations	+	Confidence in religious organizations	−
Divorces	0	Confidence in education	−
People are trustworthy	−	Confidence in the executive	−
People are fair	−	Confidence in universities	−
People are helpful	−	Confidence in the press	−
Monthly with relatives	0	Confidence in medicine	−
Monthly with neighbours	−	Confidence in television	−
Monthly with friends	+	Confidence in the Supreme Court	0
Monthly in a bar	−	Confidence in science	−
Associational activities	−	Confidence in Congress	−
		Confidence in the army	−
		Confidence in banks	−

Note: Data includes marital status, trust in others, the perception of other people as fair or helpful, the frequency of interactions with relatives, neighbours, friends and people in bars and taverns, associational activities and trust in various kinds of institutions; '+' means that the indicator showed an increasing trend over the period, '−' means that the trend was decreasing, '0' means that the trend was non-significant.

Source: Bartolini et al. (2011).

social control and dispute resolution also exhibited an explosive increasing trend during the last decades of the twentieth century. Putnam (2000) attributes such an explosion to the decline in social trust over that same period. He observes that, since the 1980s, spending on security rose rapidly as a share of US GDP. The upsurge of this trend is reflected by a 40 per cent increase in police and guards and by a 150 per cent increase in lawyers and judges over the levels that would have been projected in 1970 (Putnam 2000, p. 146). In other words, the erosion of social capital (trust, work ethics, honesty) boosted the expansion of those sectors of the economy that provide the goods and services, which individuals and organizations employ to defend themselves from rising opportunism.[5] The growth of these sectors must be framed within the secular trend to expand the 'transaction cost sector'[6] documented by Wallis and North (1986) for the US economy. They estimated that the (private plus public) transaction cost sector was 26.1 per cent of US GDP in 1870 and 54 per cent in 1970.[7] However, this growth – paralleled by the decline in peer monitoring and informal sanctioning provided by social capital – has accelerated since the



Note: The ordered probit index on the vertical axis indicates the variation of the average happiness with respect to the initial year.

Source: Stevenson and Wolfers (2008).

Figure 6.9 Trend of self-reported happiness in the US

1970s. According to Jayadev and Bowles (2006), work supervisors and guards (police, corrections officials and security personnel) grew from 10.8 per cent of the US labour force in 1966 to 13.4 per cent in 1979 and to 17.9 per cent in 2002. Conversely, this share had remained stable between 1948 and 1966. The astonishing figure of a US jail population of 2 million during the 2000s – risen from 0.3 per cent of the total labour force in 1979 to 1.8 per cent in 2002 – mirrors these disquieting numbers.

- *Well-being*. Despite their increasing consumption, Americans have been feeling progressively worse over the last few decades. Self-reported happiness declined in the United States over the course of more than 30 years (see Figure 6.9). The diminishing self-reported happiness in the US is paralleled by a rampant diffusion of mental illnesses (Twenge 2000; Diener and Seligman 2004; Wilkinson and Pickett 2009). In short, available measures of well-being, both subjective and objective, point to a decrease in well-being in the US over the last few decades. Increasing inequality may have contributed to this decline, both by generating a slower growth of median income than per capita GDP[8] and by exacerbating the 'positional arms race' implied by social comparisons.[9] However, a study by Bartolini et al. (2013) shows that, consistent with the NEG approach, the decline of social capital played a fundamental role. In fact, a large portion of the decline in happiness of the average American is predicted by the decline of social capital.

- *Work hours*. Working hours increased in America over the past 30 years, and this is surprising in an increasingly wealthy country. Bartolini and Bilancini (2011) have shown that individuals with fewer and poorer relationships tend to work more. The causality seems to run both ways. People seem to find, in money and work, compensation for the poverty of relationships in their lives. At the same time, those individuals who work more tend to have fewer and poorer relationships, because work takes away time and energy that could instead be dedicated to relationships. This study confirms the NEG view that decline of relationships and increase in working hours are connected by a bi-directional causality. This suggests that American society may be trapped in a vicious circle, in which a lack of relationships causes a greater number of working hours and these, in turn, cause a greater lack of relationships.

Summarizing, while Americans have consumed and worked more and more – despite the fact that they have lived in a very prosperous economy – they have also experienced a decline in their happiness and the quality of their relationships. The signs of NEG capitalism are evident in the US.

AND EUROPE?

Over a similar time period, continental European economies grew less quickly (Table 6.2).

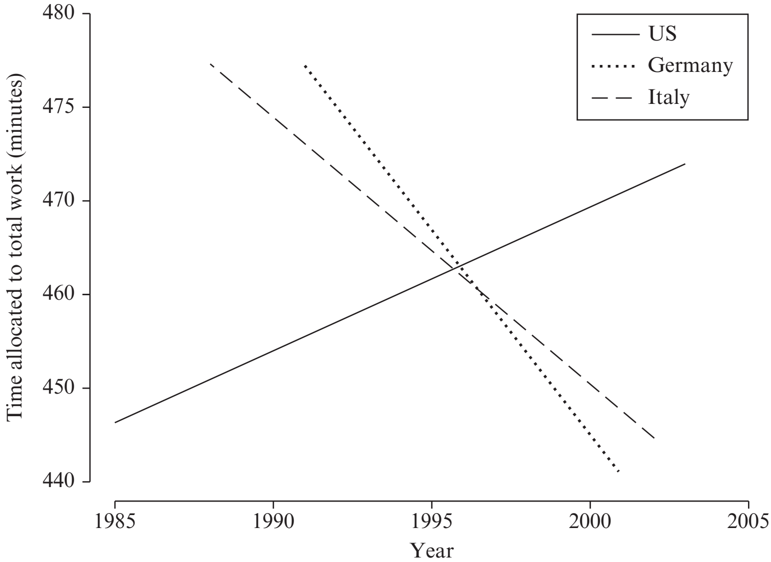
Working hours diminished compared to the US. In the mid-1970s, British, German and French men worked on average 5 to 10 per cent longer hours than American men. Yet 30 years later they were working

Table 6.2 Growth rates of GDP 1980–2005 in the US and in some big European economies

	Total growth rate 1980–2005	Average annual growth rate 1980–2005
France	47%	1.8%
Germany	48%	1.8%
Italy	49%	1.9%
United States	69%	2.7%

Note: PPP converted GDP per capita (Laspeyres), at 2005 constant prices.

Source: Heston et al. (2011).



Note: In average minutes per day, person aged 20–74.

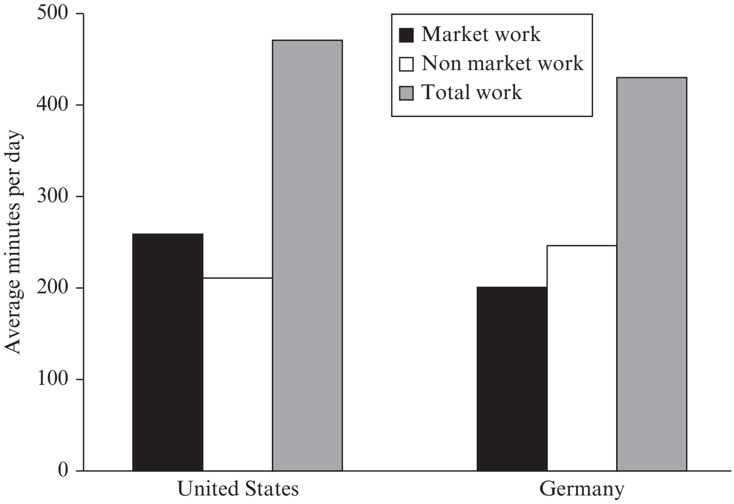
Source: Burda et al. (2007).

Figure 6.10 Trends in total working time across countries

only 70–75 per cent as long as the average American (Prescott 2004; see also Alesina et al. 2005; and Stiglitz 2008). Figure 6.10 illustrates the trends of work time for the US, Germany and Italy.

This difference in the trends of work hours between Europe and the US is mitigated by the different trends in home work, that is, unpaid work in the home, which dropped more sharply in the US. Indeed, Europeans self-produced part of those services, which Americans, instead, bought (Davis and Henrekson 2004; Freeman and Schettkat 2005; Aguiar and Hurst 2007; Burda et al. 2007; Rogerson 2008; Olovsson 2009). But the parable of German mothers cooking more at home compared to their American counterparts – who more often go out to eat at restaurants (Gordon 2006) – is not sufficient to overturn the evidence that Europeans do indeed have more free time, as shown in Figure 6.11.

Moreover, one should not attach 'much weight to those studies emphasising that because the number of hours of home work has been reduced true leisure has increased' in the US (Stiglitz 2008, p. 46). The reason is that home work is often not a cost. 'For a farmer to toil in his field is work but for a middle-class American or European to toil in his garden is pleasure.



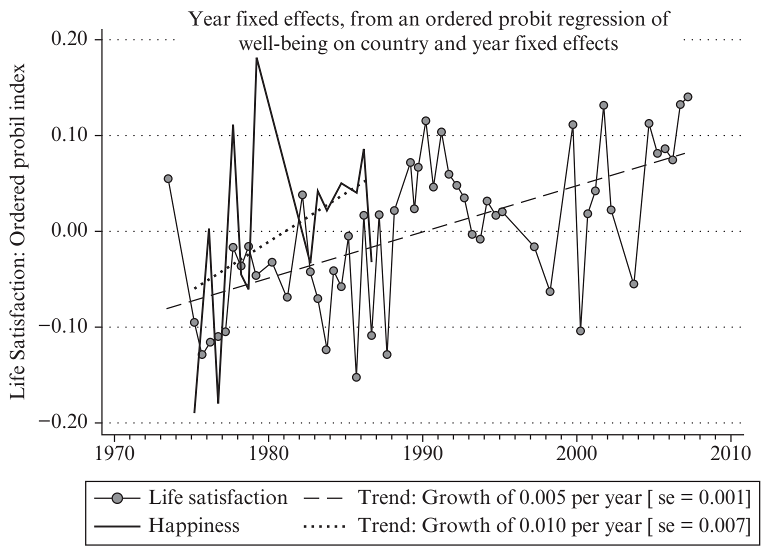
Source: Bonatti (2008).

Figure 6.11 Differences in the use of time between Germany and the US

Cooking may be toil but for many individuals . . . on occasion cooking is a pleasure' (Stiglitz 2008, p. 46). Lastly, home work tends to strengthen family relations. Homes that are empty for the greater part of the day are obviously not fertile ground for nurturing relationships.

If the trend of social capital really is a contributing factor in explaining these differences, then we should expect to find that social assets had a better development path over the period in Europe than in the United States. The same should be true for the happiness trend. This is exactly what seems to have happened. In general, social capital and well-being grew in Europe. Drawing from World Values Survey/European Values Study data, Sarracino (2011) shows that the levels of social trust, associational activities and happiness grew (albeit weakly) in 11 Western European countries in the past few decades. Figure 6.12 indicates the aggregate trend of subjective well-being in Western Europe, drawn from another source, Eurobarometer.

In short, international comparisons suggest that NEG capitalism finds its most extreme example in the United States. NEG capitalism seems to be less rooted in Europe where the evolution over time of social relationships seems less disappointing, and this contributes to the result of a slower growth rate of the economy, of a reduction in working hours and of a less disappointing trend of well-being. The home of NEG capitalism is America.



Note: The ordered probit index on the vertical axis indicates the variation over time of the average life satisfaction or happiness.

Source: Stevenson and Wolfers (2008), based on Eurobarometer data 1973–2007.

Figure 6.12 Trends in European well-being

These international differences find further confirmation in cross-country comparisons of an important component of the expenditures generated by the erosion of trust on the workplace – the work supervisors' share of the labour force – which show that the US ranks at the top (see Table 6.3).

WHY DOES NEG CAPITALISM THRIVE IN AMERICA?

One may conclude that there are strong signs indicating that America has become the temple of NEG capitalism. These findings support the thesis that the decline of social capital in America lies at the root of the rampant consumerism that has guided American growth over the past decades and that it has created the premises for the current economic crisis. The destruction of social relationships seems to have been stronger in the United States than in Europe and has had an impact on the differences observed in the trends regarding happiness, working hours and growth.

But how did America turn into the temple of NEG capitalism? I high-

Table 6.3 Work supervisors as a percentage of the total labour force: 18 advanced economies in 2002

Country	Supervisors
United States	14.9
United Kingdom	13.4
New Zealand	11.9
Netherlands	11.6
Australia	11.1
Ireland	10.6
Belgium	10.3
Greece	9.1
Canada	8.5
Iceland	7.9
Norway	7.3
Denmark	6.9
Austria	6.8
Portugal	6.7
Spain	6.7
Switzerland	5.8
Sweden	4.4
Italy	2.9

Source: Jayadev and Bowles (2006).

light here two key causes of decline in American social relationships, relating to the issues to do with modern cities and materialism that were discussed in general terms in the section 'What causes the decline of relationships?' above.

The Growth of Materialism

The materialistic culture has spread very fast in the US over recent decades. The percentage of university students who believed that an outstanding economic condition is an essential goal in life stood at 39 per cent in 1970. But in 1995 this percentage had risen to 74 per cent, becoming the students' main goal in life and overtaking any other ambition (Myers and Diener 1997). From 1975 to 1991, the percentage of Americans who felt it was important to have 'a lot of money' rose from 38 per cent to 55 per cent. The percentage of those who considered it important to have 'a job that pays much more than the average' grew from 45 per cent to 60 per cent. On the other hand, non-materialistic ambitions for a happy marriage and an interesting job fell in importance (Schor 1998).

These findings are not surprising if one takes into account the enormous increase in Americans' exposure to the media in this period. Time dedicated to the media increased across all social categories and age cohorts, starting with children (Schor 2005).

And it is even less surprising if one considers the huge increase in market relationships in American social life. In fact, since the 1980s, America has been the scene of a large-scale experiment inspired by a free market philosophy, aimed at increasing the penetration of the market into society. Market mechanisms were extended into spheres of social life from which they had previously been excluded or limited, that is to say, health care, education and pensions. The labour market was made totally flexible, giving companies complete freedom in firing. Companies were 'restructured' to promote a work organization based on more incentives, more stress, more controls, more pressure, more competition and more tension (Harrison and Bluestone 1990).

From the viewpoint of risk, these changes narrowed the gap between the middle class with comfortable incomes and the poor. Sudden downturns in life can drive a family from middle-class status to poverty in a short time. The most extreme examples are those cases – far from uncommon – where people suddenly lose their jobs or their savings as a result of one of the innumerable scandals that have shaken the American economy in thve past few years. These people are no longer able to pay their mortgages or rents and, in a short span of time, pass from the comforts of the middle class to the nightmare of homelessness.

The American experience shows that these changes have the effect of promoting a sense of collective insecurity that pushes a vast part of the middle class into a state of precariousness. For this reason, these changes may have contributed to the increase in materialism. As we saw earlier, materialism is, in fact, a reaction to insecurity. In other words, the reason why the changes introduced into the American economy generate materialism is that they stimulate the fear of exclusion. They create individuals who fear being marginalized with respect to something as fundamental as, say, health care or a good education for their children. The possibility of finding reassurance through consumption seduces these individuals. And there is an entire propaganda apparatus set to convince them that consumption is the answer to their fears of exclusion.

Here again, differences emerge with respect to European societies. The per capita advertising expenditure in the US is four times that of continental Europe (Mulgan, this volume, Chapter 11). The trends of materialism are different as well. Bartolini and Sarracino (2013), using internationally comparable data over the last 25 years, find that, while materialism increased in the US, it decreased in the six major countries of Western Europe.

The Expansion of the Low-density City

American growth over the past 20 years was driven by an extraordinary and prolonged real estate boom. Cities expanded, and the new neighbourhoods were built according to the low-density-city model – in other words, suburbs of single-family detached homes, often surrounded by a garden. This is a city model with a great destructive effect on relationships and environmental resources.

From the point of view of relationships, the historical core of European cities has, in general, a potential advantage compared to American cities, which is that of not having been built for cars. Low-density cities are not an environment designed for pedestrians, because their homes are separated from points of interest, such as shops, by great distances. Many suburbs in the United States don't even have any pavements, so that pedestrians, especially children, feel insecure on the streets (Peñalosa 2008).

American suburbs present, therefore, an extreme example of the problems of human relationships arising in cities dominated by cars. If there are few inhabitants per acre, and if the environment is not designed for pedestrians, few people will be found walking around on suburban streets. Suburbs become solitary places, and shopping malls tend to become the only public meeting places. Moreover, people who live in the suburbs go less often to city-centre theatres, restaurants or museums, and so low-density cities also have reduced cultural activities. In addition, the scarcity of public transport prevents members of weaker groups from reaching city centres (Peñalosa 2008).

The lesson of American suburbs is that transport based on cars produces social disruption even in cities designed for cars. In addition, low-density cities make it impossible to realize an efficient public transport system. In scarcely populated suburbs, it is impossible to offer a low-cost and high-frequency public transport service. Indeed, in very large cities, the average distance between two points of interest becomes longer, and the low population density around the bus or train stop areas implies that the means of transport would circulate almost empty.

Putnam (2000, chap. 12) spoke up against the suburbanization because of its damaging effects in terms of the reduction of social connectedness and civic engagement and the increase in social segmentation. Lewis Mumford defined the suburbanization trend over 70 years ago as 'a collective effort to lead a private life' (quoted by Putnam 2000, p. 210).

It is also difficult to overestimate the environmental damage of suburbanization. Suburbs are strongly energy-consuming for two reasons. The first is that they require an individual to cover great distances to go to work, to go shopping or to spend some leisure time outside of the home.

This implies an abundant use of cars. The second reason is 'thermal'. In the US, suburban homes are exposed to the weather on all sides and built with thin walls that generally provide poor thermal insulation, in the sense that they are very hot when it is hot and very cold when it is cold. The climate in America varies from desert heat to extreme cold. But the building materials of these homes do not substantially change. In these homes, it is necessary to use large amounts of energy for a greater part of the year not to suffer from the heat or the cold, because of an extensive use of heating or cooling systems (Kahn 2000).

This type of urban expansion has contributed to create the formidable profile of the American consumer, because it created the needs of costly lives. One must have a great deal of energy, a lot of money for one's leisure time, a comfortable home that is large and well appointed, a large and fully accessorized car, many status-symbol goods – and even lawyers, who seem to have almost become an essential need in an increasingly conflict-ridden society.

EPILOGUE: THE IMPLOSION OF NEG CAPITALISM

Why did the American crisis infect the world? The aspect of the current crisis that surprised most observers is that it originated out of a relatively small and localized default crisis, that of sub-prime mortgages in the United States. How is it possible that such a small crisis was able to trigger the greatest global financial crisis of the past 80 years?

And yet the international financial system had basically withstood a series of violent crises (Mexico, Argentina, Brazil, Russia, South-East Asia, etc.) over the past 20 years. These crises had disastrous effects in the stricken countries, but the contagion effects on the global financial system were essentially limited and transitory. Instead, a small default crisis in the US brought this system to its knees. Why?

The World Financed American Consumption

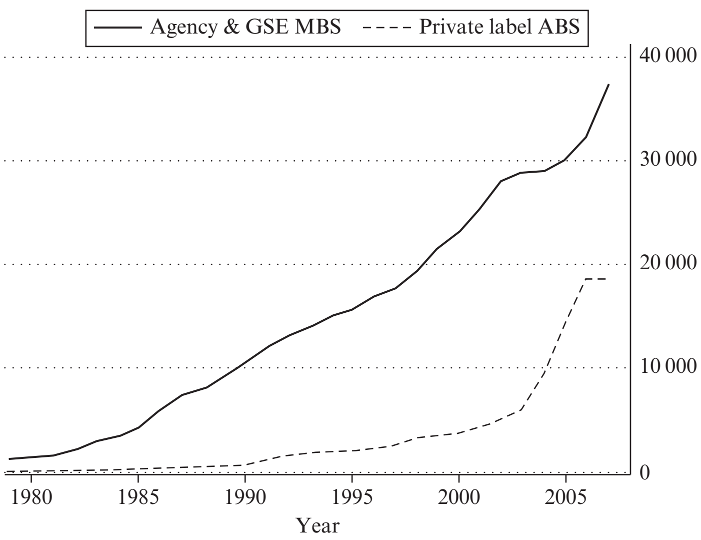
As previously mentioned, the root of the crisis lies in the huge size of the debt of American households. Everything else is the financial transmission of this debt crisis to the rest of the world. In the mechanics of this transmission, bulimia, greed and the lack of ethics all play a significant role. Let us see how.

At the start of the crisis, the American financial system was heavily indebted to the rest of the world. Indeed, most countries in the world had been buying bonds, especially private ones, on Wall Street for at least 15 years. As an example, China had increased its financial investments in the United States by a factor of 10, from $92 million in 1994 to $922 million in 2007. In addition, while in 1994 these investments were restricted to treasury bonds, in 2007 they were aimed largely towards assets issued by private companies (Jagannathan et al. 2009).

Particularly over the past ten years, this flood of money flowing into the United States had been increasingly channelled towards financing the credit of the average American. In short, it was the extraordinary inflows of capital into the United States that had financed the easy credit of American households. In practice, the American financial system financed the loans it granted to the average American mostly by borrowing capital from the world.

Since American households resorted to borrowing in order to increase their consumption expenditures, the world was financing American consumption. This financing mechanism was based on a certain type of derivatives, currently known as 'toxic assets'. These structured assets, derived from the securitization of mortgages and loans, pool together high- and low-quality debts, generating opacity concerning their 'true' risk of default (Jagannathan et al. 2009).

Figure 6.13 illustrates the dramatic growth in the volume of toxic assets in the United States over the past 30 years.



Note: In US dollars per household.

Source: Jagannathan et al. (2009).

Figure 6.13 Outstanding mortgage-backed securities by issuer

While the American private debt increased and the world was being flooded by assets based on this debt, the freedom to move capital internationally – which followed the collapse of Bretton Woods in the 1970s – had profoundly changed the habits of savers all over the world.[10] The liberalization of the export of capital had created a world of financial opportunities. Suddenly, it was possible to invest in any stock, anywhere in the world. In this new era, where did capital from all over the planet predominantly flow? Obviously, towards the most reliable countries and the largest financial markets – in other words, towards the United States.

If countries were financially similar, international mobility would distribute capital all over. But, in a world in which there is a country that is considered more reliable than others and which has a very large financial market, a globalized financial system takes on the role of provider of capital for that country.

If we consider this in conjunction with the securitization of the debt of American households, the financial system that emerges possesses two traits: it creates a strong global demand for American assets, because the markets trust in the solvency of Americans, and it creates a strong supply of assets, through financial engineering applied to the debt of Americans.

This is how Wall Street came to absorb a large part of the capital of the world. This way, the extreme inequalities, with regard to solvency and the size of financial markets, between the countries of the world resulted in the financing of consumption in the country that was already the biggest consumer of all. Wall Street became the meeting ground of the willingness of the world to finance Americans and the willingness of the formidable American consumer to become indebted. In this fashion, Wall Street transmitted the massive debt that Americans had been accumulating on to the rest of the world.

Exporting the Crisis: The Credit Crunch

The default of the sub-prime mortgages was triggered by a decline in the real estate market. In fact, when the price of homes falls, many mortgage holders prefer not to pay or cannot find the means to do so.

Having first hit sub-prime mortgages, the crisis spread to the rest of the American financial system, leading to a series of bankruptcies of large banks and insurance companies. Americans, to put it bluntly, had stopped repaying their debts. This drove the global financial system into a crisis. A surge in interbank rates following the sub-prime mortgage crisis was the consequence of spreading mistrust among banks, all more or less laden with toxic assets, the world over. Banks feared the bankruptcy of other banks and stopped lending each other money if not at high interest rates. Credit tightened, and the credit crunch arrived. The latter passed the financial collapse on to the real economy, triggering the recession.

In this way, the American crisis was transmitted to the rest of the world, because the entire world was holding assets on the debt of American households, assets that lacked transparency concerning their default risk.

SUMMARY: THE DESERT BEHIND, THE ABYSS AHEAD

Why did the crisis originate in the US? And why did the American crisis infect the entire planet? I first underlined two powerful forces that in the past few decades drove the US economy towards a limitation of its consumption potential: the increase in income inequality and the worsening of the trade balance. However, despite these forces, the enormous push to consumption exerted by the US economy did not halt. Rather, consumption grew faster than wages. US households financed this consumption rush by going deeply into debt. The important question is: what motivated this urgent need to consume in an affluent economy? In other words, the issue is to find an explanation for American hyper-consumerism.

I first exposed a theory of consumerism and then turned to the US to check whether the evidence supports an explanation of American consumerism based on such a theory. The main features of this theory of consumerism are the following. There are common free goods that cannot be bought and that are important for people's well-being, such as the quality of human relationships or of the environment. Households can defend themselves from the decline of these common goods by buying consumer goods as substitutes for declining free goods. In order to finance these expenditures, households have to work and produce more, thereby supporting economic growth. In turn, growth can further deplete these common goods, generating a self-feeding mechanism whereby the deterioration of the environment and of human relationships produces economic growth and this, in turn, produces an even greater environmental decay and a further deterioration of relationships. This is the engine of the diffusion of consumption- and work-oriented lifestyles.

I give the label of NEG (negative endogenous growth) capitalism to the economic, social, cultural and institutional features that produce this self-reinforcing process. What are these features? Why can economic growth generate this decline in common goods? Regarding the environment, the answer obviously lies in greater amounts of pollution. As far as the decline of interpersonal relationships is concerned, I argue that it may be due to:

1. The way modern cities are designed and organized. In particular, the modern decline in the quality of urban public spaces damages the social fabric.
2. The spread of materialistic values. Indeed, materialism is related to the poverty of relationships by means of a bi-directional causation. On the one side, materialistic individuals tend to develop certain attitudes in their relationships with other people which disfavour positive experiences in such relationships. On the other side, individuals who experience poor relationships tend to develop materialistic values. Indeed, materialism is a response to insecurity, and poor relationships, especially during infancy, tend to produce insecurity. The conclusion is that there is a circular effect that leads materialism and the scarcity of relationships to nourish each other.
3. In turn, materialism is promoted by market relationships. In particular, the higher the penetration of market relationships into social relationships, the greater their impact in promoting materialistic values.
4. The media, especially advertising, play a role in spreading materialism as well.

The NEG approach suggests that the better the evolution over time of social capital, the lower the growth rate of the economy, of work hours and of consumption and the better the trend of well-being. I then turned to the US to examine whether it showed any evidence of an economic growth of the NEG type over the past few decades. I found this evidence in the decline of US social capital, in the remarkable increase in expenditures as a defence against the deterioration of social capital, in the decrease of average well-being and in the increase in work hours. The roots of NEG capitalism appear to be much stronger in the US compared to Europe. Indeed, in Europe, in the past few decades, social capital and well-being increased slightly, whereas work hours fell and growth was weaker compared to the US.

These differences between Europe and the US find a plausible explanation in the different dynamics of the factors affecting the evolution of social capital over time. In a different trend from that seen in Europe, materialism spread greatly in the US over the past few decades. This, in turn, may have been affected by the comparatively much greater pressure exerted on Americans by the advertising industry. Moreover, in the past 30 years the US has experienced economic reforms that brought the penetration of market relationships into the society to unprecedented levels in human history. Finally, the remarkable expansion of American cities in the past 20 years followed the model of the low-density city, a model that has a particularly harmful effect on social assets.

To conclude, the economic growth produced by NEG capitalism is fraught with the risk of crises and, under certain financial market conditions, can produce global crises. When the crisis exploded, these financial market conditions had matured enough to allow the contagion to be exported to the rest of the planet. In fact, the expansion of American private debt had been facilitated by the abundance of credit in the United States, fuelled by the funding of the American debt which the world had carried out by flooding Wall Street with its capital for decades. It is precisely for this reason that the American crisis infected the rest of the planet: the contagion vectors were the toxic assets on the American private debt. The abundance of credit in the United States and the export of the American crisis are two sides of the same coin.

The explanation for American consumerism proposed here is not intended as exhaustive. It could easily coexist with other explanations, in particular with that based on the role of increasing income inequality within a context of social comparisons. In any case, whatever its explanation, American consumerism stands at the core of this crisis.

This approach emphasizes that what happened in the credit market is the flip side of the coin of what happened in the labour market. Americans plundered every accessible resource to support their consumption: credit and their own time. A society that produces people who are increasingly lonely and more and more willing to consider 'buying' as the solution to their problems tends to live systematically beyond its means, if the conditions of the credit market allow it to do so. The crisis was triggered by an extremely dangerous combination of two factors: the willingness of a people to live beyond its means and the willingness of the rest of the world to provide it with the resources to do so. In turn, the willingness to live beyond one's means stems from the world – created by NEG capitalism – in which material satisfaction is used as compensation for social dissatisfaction. This material–social imbalance, by way of the credit market, can be transformed into global economic imbalances that lead to profound planetary crises.

This is why the goal of promoting happiness coincides with that of promoting economic stability. Both require the construction of a world that is more attentive to that dimension of life which concerns social relationships. In other words, the antidote to NEG capitalism lies in policies for social capital (Bartolini, forthcoming; Helliwell, this volume, Chapter 5).

NOTES

1. In 1996, the trade deficit was \$1006 per household; in 2000, it had increased to \$3787 per household; it finally exploded to \$6194 per household in 2007 (Jagannathan et al. 2009).

2. The share of wages and salaries as a percentage of American GDP was 49 per cent in 2000, but it had dropped to 46 per cent in 2007. Adding proprietors' income to this share, it dropped to 54 per cent of GDP in 2007 compared to 57 per cent of GDP in 2000 (Jagannathan et al. 2009). All indicators of income inequality – e.g. the Gini index – point to a worsening of income distribution in the US over the past 30 years (see Atkinson et al. 2009).
3. An example of advertising conveying a different existential message is 'The Impossible Ad' (http://www.youtube.com/watch?v=OvfWGlzFVDw). It is impossible because it advertises products that are not sold by anyone: time and affection. Contrary to commercial advertising, 'The Impossible Ad' suggests that the remedy to dissatisfaction lies in having more time and in nurturing more one's affective relations, which arguably implies working (and consuming) less.
4. Putnam's findings were criticized (i.e. Ladd 1996) and carefully scrutinized, but in the end they proved to be substantially correct (Paxton 1999; Robinson and Jackson 2001; Costa and Kahn 2003; Bartolini et al. 2013).
5. Opportunism is the practice – motivated by self-interest – of exploiting circumstances without regard to moral principles or others' interests.
6. The concept of transaction cost covers a range of costs associated with the exchange of goods or services and the protection of private property. Transaction costs importantly include those costs related to protection from opportunism. Examples are provided in the text and include police, guards, lawyers and judges.
7. Wallis and North (1986) mainly attributed the growth of the transaction cost sector to the increasing division of labour and number of transactions in the US economy. However, according to Putnam's thesis, the decline in social trust have played a role in the expansion of the transaction cost sector.
8. Fischer (2008) shows that, while per capita GDP is not correlated to happiness over the last few decades in the US, happiness and median income are correlated. However, a large part of the happiness trend remains unexplained by median income.
9. 'Additional spending by the rich shifts the frame of reference that defines what the near-rich consider necessary or desirable, so they too spend more. In turn, this shifts the frame of reference for those just below the near-rich, and so on, all the way down the income ladder' (Frank 2009, p. 13).
10. In 1944, the powers that were close to winning the Second World War negotiated in Bretton Woods (US) an agreement concerning the rules that had to regulate the monetary and financial relationships among countries in the after-war period. The main feature of the Bretton Woods system was an obligation for each country to keep its exchange rate fixed – through proper monetary policy – with respect to the US dollar, whose value was established in terms of gold. The member states were encouraged to use capital controls (limitations to international capital flows) to maintain external balance in the face of potentially destabilizing capital flows. In the early 1970s, the collapse of the Bretton Woods system opened up the new era – in which we still live – of full freedom of international capital movements.

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