

**Dissertation Project Submitted to
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How New Zealand's non-mortgage, individual and household debt has grown since the 1990's, looking at the demographic factors behind the debt and how it compares to other OECD countries.

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I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent had been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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1. Abstract

In my dissertation I have looked at the literature (a number of Journal articles) and quantitative data from the Household Savings Survey (2001), Survey of Family, Income, and Employment (2004/2005) and Buzzthepeople (2008) to explore how New Zealand's household debt (other than that of mortgage debt) has increased so quickly in the last 10 years. On the macro level a number of government policies around the liberalisation of the financial industry has made it easier for banks to sell credit and access it from overseas, whilst on the micro level attitudinal changes in spending habits and increasing acceptance of debt as a normal part of life has led to a much wider use of credit such as credit cards, hire purchase, bank debt and personal loans. The report also includes a literature review which looks at international literature which looks at a number of explanations of the growth of non-mortgage household debt, exploring among other things, how those on more modest incomes have become prone to using credit to supplement their often inadequate incomes. Ultimately the 'hierarchy of debt' which ranks debt types (student loan, credit card, personal etc) in order of their utility to the consumer, illustrates how the financially excluded sectors of society are forced to use those types of credit that are the least desirable in terms of interest rates and other related costs.

Dissertation

How New Zealand's non-mortgage, individual and household debt has grown since the 1990's, looking at the demographic factors behind the debt and how it compares to other OECD countries.

2. Introduction

In New Zealand, debt in a number of different forms has become an increasingly common aspect of individual and household financial situations, with notable growth recently in credit card and personal loans among a large portion of New Zealanders. This development is due to a number of factors including consumer spending habits that outstrip income, leading to what is now a total of \$4.5 Billion in credit card debt (CCD) in New Zealand and \$6.7 Billion in bank liabilities (RBNZ, 2008). To add to this, of the \$4.5 Billion in CCD, \$3 Billion is accruing interest at a rate of over 18%, meaning that CCD is not likely to decline as recent trends of liability growth would suggest (RBNZ, 2008). Overall, four out of every ten adult New Zealanders were in credit card debt with an average of around \$4,550 per person for those who had debt on their credit card or credit cards (Cheung, 2007). These recent statistics reflect a massive increase in the amount of debt that has been accumulated on credit cards alone over the last 6 years with the total being a comparably small \$2 Billion in 2001 according to the Household Savings Survey (Stats NZ, 2001). This increase indicates that New Zealanders have become inclined to spend money that they do not have to the tune of \$2.5 Billion in the last 6 years, before looking into personal loans and hire purchase which are also adding to the household debt total.

The report will also look into a number of different factors which have arguably lead to this increase in household debt, with the literature review covering more abstract explanations such as the growth of materialism and over consumption, and changing attitudes of consumers in developed countries with similar economic conditions as New Zealand. Whilst the data analysis section will focus on NZ surveys that will give a clearer picture as to what sections of society according to income, age, ethnicity and educational attainment are most likely to have high levels of non-mortgage debt. There will also be an exploration into how policies such as the student loan scheme in New Zealand in 1992, which lifted the cap of \$1,300 for annual tuition fees and introduced

the student loan to allow students to borrow money from the government to pay for their fees and living costs having a large influence in creating a certain level of acceptance of debt for those who have chosen to take on tertiary studies (McLaughlin, 2003). In addition, the government's student allowance policy, which is accessed according to parental income, has also meant that a number of students have had to access living cost allowances from the government adding to their tuition fees while other students have accessed overdrafts and credit cards to supplement their insufficient incomes (McLaughlin, 2003). These trends have arguably led to a situation where many young New Zealanders are more likely to readily access credit beyond their time spent in tertiary education.

There will be an exploration into the current credit card debt situation in New Zealand, and highlight its recent growth over the last 5-10 years. There will be an exploration as to why this increase has occurred and which sectors of New Zealand society it has affected the most, also looking into other forms of unsecured debt such as bank overdrafts and personal loans and how these have affected wealth distribution in New Zealand. This trend of increasing credit card debt that New Zealand has experienced is not unusual by international standards (other OECD countries), but is nevertheless a concern as this debt could potentially have negative effects on a number of aspects of social well being. Credit card debt potentially influences wealth inequality which has grown considerably in the past 20 years in NZ, by making it easier for those on low incomes to spend beyond their means using the easily accessible credit that is on offer. The report will also look at a range of international literature on credit card debt, looking at a number of explanations as to why credit cards and other forms of unsecured debt have become an everyday part of our society as a means of consumption, and the effects that this debt has on our society. Most of the literature on credit card debt has originated from the US, where credit cards use is very prevalent compared to other OECD countries. The literature review will also look at the differing types of debt that are common in New Zealand and rank them in terms of their cost to the consumer, showing how different segments of society in some cases are unable to access reasonable credit via bank loans and credit cards. Financial exclusion and some of the problems that are related to fringe lenders will be explored mainly using a report from Buzzthepeople which has surveyed respondents on their experience with a range of different creditors.

3. Methodology

In this report I have used a range of literature on credit card debt and other forms of unsecured debt to inform the findings and conclusions of this report. The literature includes a number of reports put out by government ministries in New Zealand that provide a source of quantitative as well as qualitative data and literature on credit card debt and other forms of liability such as bank debt, student loans, mortgages and hire purchase loans. According to Betti et al. (2001), there are three main types of data on debt levels which are macro, micro and legal (Valins, 2004). In this report I have mainly relied upon micro data from the Household Savings Survey (HSS) (2001), and the Buzzthepeople report on Marketing of Credit to New Zealanders (2008), which both utilise surveys that examine different monetary indicators of income, net worth, debt and demographic indicators that may explain variation in these phenomena. The articles I obtained included a number of international perspectives explaining why credit card debt has become so common across developed countries, which gave a good theoretical background into what macro level changes in society had created this shift towards a greater reliance on debt. This covered factors such as consumerism and materialism, and changing attitudes to debt, as well as a number of marketing techniques used by creditors (banks) to make credit cards and other forms of debt more attractive to the consumer.

Households Savings Survey (2001)

The New Zealand Household Savings Survey (HSS) provided the majority of the quantitative data for the report and has been sourced from a cross-sectional survey covering the whole of New Zealand undertaken in 2001. It was a one-off survey measuring the net worth of New Zealanders in which randomly selected participants who were investigated either as individuals or couples. The survey covered those over the age of 18, living in private dwellings who usually reside in New Zealand. Those living in non-private dwellings such as institutions, motels or rest homes were excluded, as were those who lived on off-shore islands (except Waiheke Island). In total, a population of 930,900 non-partnered individuals and 1,711,800 individuals in couples, or a total of 2,642,700 people over the age of 18 were covered in the survey. Couples

combined their joint incomes and other monetary indicators that have been measured in the survey. The respondents were asked to estimate the market value of their assets at the time of the interview, which can then be assessed in relation to a number of demographic characteristics such as age, income, ethnicity, and educational attainment to find out how these different groups debt levels and net worth are affected.

Survey of Family, Income and Employment (SoFIE – 2004/2005)

The SoFIE survey like the HSS, looks at those who usually reside in New Zealand in private dwellings, who are over the age of 15. The survey is longitudinal, meaning that it is carried out in a number of waves every two years where a randomly selected group of households (15,000) are approached to take part in the research of which approximately 11,500 agreed to take part in adding to a total number of individual respondents of around 22,000. This survey provides information around net worth and many other wealth indicators showing how income and wealth are distributed from poor to rich in New Zealand. Because there are a number of waves in the survey it is designed to find changes in income and employment etc, with the same individuals being interviewed every 12 months. Although for the purposes of this report the fourth wave of data on income and employment has not been released in time for the author to be able to review the changes since the 2004/2005 results. A number of government reports derived from SoFIE's results provide empirical analyses of the difference between total assets and total liabilities, and the distribution of this amongst different group's characteristics in New Zealand, especially in relation to Net Worth which serves as a useful measure of individual or household wealth.

Buzz the People – Topline Report (2008)

Buzz the people was an online survey that was sourced from two online research panels; a mainstream panel of New Zealanders across the demographic spectrum called buzz the people, and a second youth focussed online research panel called Buzzstop. Only 1.5% of completed responses came into the survey from the website rather than from the research panels (Buzzthepeople, 2008). The survey includes both quantitative and qualitative data where information is given by respondents on their experiences with credit providers in New Zealand and whether they are happy with these service

providers. A total of 5,677 people entered the survey with a total of 4,626 completing it, and it is had a theoretical margin of error of +/- 1.5% (buzzthepeople, 2008). Using data from Stats NZ the results have been weighted so as to better represent the NZ population (buzzthepeople, 2008). This is the one of the only sources of information in the report that provides an insight into fringe lenders to the financially excluded section of New Zealand society that cannot access good credit from mainstream providers with more reasonable credit contracts. This report also looks into the types of credit that New Zealanders have and whether they are being offered unsolicited credit, going into more detail about respondent's credit arrangements than the HSS or SoFIE surveys results.

4. Limitations of Literature Review

There was a lack of literature and data on a number of aspects related to unsecured debt in New Zealand such as data on those who could not access mainstream credit, and also literature on New Zealanders' changing attitudes to credit were not readily available to the author. Therefore, the findings and conclusions of the report are limited by these methodological shortcomings that have restricted the scope of the work to what has been covered in previous literature, research and data. This lack of data and literature specifically relating to debt in New Zealand can also be attributed to credit card and personal debt being a relatively new social issue that has only recently reached the mainstream media and academic literature. Subsequently, the depth of understanding of the issue is still being developed as the issue gains more notoriety as worthy of academic inquiry. Most of the academic literature surrounding personal debt is dominated by economic discourse which tends to underemphasise the negative social impacts of the financial deregulation that has led to a more debt reliant society. Therefore, in writing this report I intend to highlight some of the social impacts that have previously been overlooked. Aiming to give a more in-depth understanding of how macro and micro economic indicators translate to economic hardship for those in the lower socio-economic sectors of New Zealand society. By combining information from SoFIE, HSS, Buzzthepeople and other government survey data and reports without using additional primary research, I intend to give a clearer picture of where New Zealand's household debt problem is at present and how it may evolve in the future.

5. Limitations of Data Analysis

This report has been limited by a lack of literature that has been written on debt in relation to New Zealand, and therefore the author has had to use a lot of literature from the United States and Europe. This is mainly because the issue of living in an ‘indebted’ society’ has only recently become prominent in NZ academic literature and government documents, due to its sudden rise in recent years. On the other hand the United States and Europe have a longer history of using Credit Cards and other forms of Credit to fund an economy which allows people to buy now and pay later, giving them more history of the issue to draw from in their research.

The amount of data available on credit card debt in the last few years has also been limited since the release of the Household Savings Survey of 2001, with updates of only some of the same indicators by the Reserve Bank of New Zealand. The Survey on Family, Income and Employment has also included some important data on wealth distribution and net worth of New Zealand households although it does not break down debts into specific categories that are indicated in the hierarchy of debt.

6. Literature Review

This literature review will outline the different aspects of non-mortgage debt firstly by referring to relevant definitions of debt and credit. Then it will summarise and elaborate on some of the main findings and theories around non-mortgage debt, covering the trends in household and individual debt in NZ briefly looking at other comparable developed countries around the world. This will cover the differing forms of debt available to consumers, their changing attitudes to debt and what has brought these changes about including legislation and advertising that shape people's consumer behaviour. Finally, there will be a discussion and comparison around the differing forms of debt and their particular effects on the debt epidemic exploring which segments of society are affected the most by this growth in debt.

Definition of Debt/Credit and its differing forms

Credit, as defined by Betti (2001, pg 4), is “money lent, which an individual intends to repay (often in a set period of time and at a set rate)”. Debt, on the other hand, was defined as “financial liabilities, regardless of how these are incurred (Betti, pg.4). It incorporates all debts, ranging from money owed in the form of mortgages, hire purchase agreements and door-to-door money lenders, to government fines and fraud” (Betti, 2001). The terms ‘liabilities’ and ‘indebtedness’ can also be interpreted to mean the same thing as ‘debt’ for the purposes of this report. Being indebted is seen as normal consumer behaviour and is inevitable for most households, especially in the early stages of the life-cycle (Betti, 2001). For example, a young person or household may use debt in a deliberate manner to shift expenditure from one period of their lives to another, when their income potential may be a lot higher. On the other hand, not all use of credit is necessarily informed and planned and may lead to unforeseen consequences.

From the perspective of the creditor (financial institution) there are two types of debt, unsecured and secured debt. For the consumer, unsecured debt is usually the debt with the higher interest attached to it (i.e. more expensive), with the exception of hire purchase, as the creditor does not have property or assets attached to the contract that can be repossessed if the debtor defaults on their repayments. On the other hand, secured debt like that of a mortgage is where the house is partially owned by the bank

until the mortgage is paid off (del Rio & Young, 2006). Unsecured debt is generally more likely to be accessed by those in the lower socioeconomic groups as they are often turned down by creditors offering more reasonable interest rates. The most common examples of unsecured debt are credit cards, personal loans and bank overdrafts, which are all becoming more widely accessible and utilised within our society with over 40% of New Zealanders having credit cards, and over 20% having bank debt (Stats NZ, 2001). High interest personal loans are also becoming popular with 20% of those with credit in a survey done by buzzthepeople using personal loans (2008).

Theories related to consumer indebtedness

One theory which helps to explain why people are inclined to get into debt is the life-cycle income model. This model in its most rudimentary form asserts that individuals are likely to borrow money when they are younger and save more as they get older, and then slowly deplete their financial resources into old age (Betti, 2001; Chien & Devaney, 2001). The model generally sees debt as a reasonably unproblematic phenomenon by which people use debt so as to still have purchasing power before their income potential grows in later life. Therefore, as is often the case many informed consumers use debt in a constructive manner shifting expenditure from one period of their lives to another without facing overly stifling repayments in later life (Betti, Dourmashkin, Rossi, Verma, Yin, 2001) The life-cycle theory also works in relation to the idea of 'time preference' which refers to a consumer's desire to consume more in the present period than their income allows (Nolle & Motte, 2005). This relatively new attitude to consumption has greatly contributed to the growing amount of Household Debt in the OECD (refer to figure 2), whereby people are no longer as uncomfortable with high levels of debt as long as they expect to increase their income potential over their life-cycle, and therefore pay off their debts later in life when the disposable income is available. Because of the inherent uncertainty in a person's income which may be prone to unforeseeable changes, what may initially be a practical use of credit may become unsustainable due to a loss of employment or some other 'life shock'. This example emphasises how with a fully informed consumer aware of all the important aspects of the market making a 'rational' decision based on that information can still become impractical given the unpredictability of peoples financial situations.

This means that when looking at statistics on debt one has to be able to look at the situations behind someone's debt and be able to assess whether it is likely to create any long-term financial difficulties (Valins, 2004). For example, if a person's disposable income minus the necessities of life such as rent/mortgage, food and clothing etc, does not even allow them to pay off the interest on their debts then this would be considered 'over-indebtedness' whereby the debt was very likely to become a long-term financial problem. One statistical indicator which measures the percentage of a household's disposable income spent on servicing on debt shows that in New Zealand this has gone from 9.8% in the middle of 2004 to 14.5% by the end of 2007 (Reserve Bank of New Zealand, 2008). Although it is hard to ascertain whether this debt is still manageable within a life-cycle income framework, it would appear that this increase shows a general trend of debt interest and related costs having a negative effect in a number of New Zealanders budgets.

In contrast to this theory, one can explain an individual's attitudes and behaviours in relation to debt, and consequently their likelihood of accessing it by considering that "...debtors interpret and negotiate debt in accordance with their socially constructed environments" (Wang, 2006, pg. 34). This theory is called the social exchange theory and has been proposed by Biggart & Castanias who assert that people's economic exchanges are influenced by their social networks which guide their financial decision making (as cited in Wang, 2006). This implies that actors are not just seen as making economically rational decisions in relation to their income potential when accessing debt, as is supported by the life-cycle income model, but are instead far more inclined to use their social networks as a reference of how to utilise debt. Therefore, the social exchange theory would interpret individuals with more financially knowledgeable peers and families as more likely to utilise credit in a 'financially responsible' manner. Unlike the LCPIM there is an assumption here that people often make uninformed decisions to access credit with no consideration of future income potential, also allowing for greater uncertainty that is inherent in people's income potential. Thus, there is no assumption of rational self interest being the only driving factor behind people's decisions to access credit which does lend itself to better explaining the difficulties that a number of people get themselves into when accessing credit, as is more frequent amongst those in the lower socioeconomic groups as the report will illustrate later on.

Credit Card and Credit/Debtor Legislation in New Zealand

The most relevant piece of legislation in relation to Credit Cards and other forms of credit available to the public is the Credit Contracts and Consumer Finance Act 2003, which repeals the old Credit Contracts Act 1981, and the Hire Purchase Act of 1971. The Act introduced new requirements around disclosure of the credit contract aiming to provide debtors with more relevant information so as to prevent consumers from oppressive contracts, also applying harsher penalties to creditors who did not comply with the new regulations (Ministry of Consumer Affairs, 2007). The legislation applies to personal loans, credit cards, hire purchase, student loans and home loans, with the intention of providing minimum standards around information and transparency of the contracts credit contracts involved (Ministry of Consumer Affairs, 2007). Some of the recent reports such as the Buzz the people's 'Marketing of Credit' report suggest that there may need to be amendments made to the legislation to further protect the consumer from oppressive credit contracts where in some cases there are unforeseeable hidden costs involved (2008). An example of a hidden cost often unbeknown to the consumer is a credit card company mechanism called 'universal default', whereby a customer's failure to make a monthly repayment can lead to the company informing other creditors who are then entitled to increase the interest on the customers' debt accordingly (Birkinshaw & Webb, 2004). Although not all credit card companies use universal default, a large majority still do in New Zealand, and this system can be employed on the smallest of repayment failures that sting the customer with extra interest that can lead to spiralling debts based on the smallest infringements. Another legal entitlement that is in favour of the credit card companies is the ability to be able to calculate the interest on one's debt on a daily basis so as to increase the balance being charged each day (Birkinshaw & Webb, 2004). Tools such as these can be used to create hidden charges that are not clearly outlined from the outset when a contract is signed. A report released by the Ministry of Consumer Affairs on fringe lenders, partly in review of the Credit Contracts and Consumer Finance Act 2003, concluded that there may be the need for a maximum interest rate on loans and greater monitoring to enforce the Act which some loan providers may not be adhering to (2008). Although, experience from other countries who have implemented maximum interest rates on credit have found that often the benefits to the consumer are minimal as most financial institutions simply utilise the maximum interest rate while using fees to make up for any lost revenue on the lowered interest rate.

According to the Buzzthepeople survey almost half of the respondents felt that the laws governing credit cards should be changed to make it more difficult to acquire a credit card in the first place (Buzzthepeople, 2008). For example, 47% of people earning less than \$20,000 a year were offered credit cards indicating that banks are willing to lend credit to those who are least able to afford it. As mentioned in a number of articles those who fail to pay their bills monthly and gain extra interest payments are the customers that make the most money for the banks/creditors (Scott, 2007). Therefore, in this scenario, the pursuit of profit from credit cards leads to negative social consequences and long term dependence on debt for those who cannot keep up with their minimum monthly payments.

Credit Cards Compared to other forms of Debt

In comparison to other major forms of debt in New Zealand, credit card debt, more than any other, represents money spent on assets which are not likely to benefit the individual in the future in the same way as a mortgage, student loan, or even hire purchase does. In the case of mortgages and student loans these represent debts which are likely to benefit the debtor in the form of an investment in a house or a better job in the future. In stark contrast to this, credit card debt is in most cases spent on reasonably expendable goods and services that due to reduced disposable incomes are now often spent on necessities like food and clothing. In addition, credit card debt if not paid off can accumulate very high interest rates almost at the same level as that of unsecured personal finance loans, especially for those who struggle to pay their monthly minimum bills. In terms of wealth disparities in New Zealand, the credit card has the effect of increasing these inequalities by transferring wealth from the poorer New Zealanders who often have to pay high levels of interest on their credit card debt; who can scarcely afford a credit card in the first place; to the wealthy who gain rewards for their prompt payments of their monthly bills (Ritzer, 2001). This has allowed consumers to spend beyond their economic resources and has created an economy reliant on a high level on indebtedness (Ritzer, 2001). For example, New Zealand's negative household savings rate of -6.4% (2003) would not be possible without the spread of overdrafts, credit cards and personal finance loans that allow New Zealander's to spend beyond their means (RBNZ, 2003).

Another recent development in the credit card industry has been the failure of credit card companies to increase their minimum monthly payments (MMP) in line with growing interest rates. According to a media release by financial services research firm Cannex, none of the 69 companies looked at a year ago had increased their MMP, and some had actually decreased their minimum payments (Cannex, 2008). This means that for consumers making the minimum payments leads to an even smaller reduction in their account balance once interest rates and annual fees are taken into account. The report also warned that for some credit cards the MMP would not even decrease their account balance - merely paying off the interest of the card (Cannex, 2008). This move by credit card companies only makes it easier for New Zealand credit card users to delay the repayment of their debt and to therefore end up paying more interest on their outstanding balances.

Comparing New Zealand's Credit Card Debt to that of the US

In the U.S the credit card debt problem has also reached alarmingly large proportions, with the average credit card indebted young adult in the U.S spending 24% of their income on debt payments (Draut & Silva, 2004). There are a number of factors that can be taken into account that may be driving debt which include slow real wage growth, student loan debt, aggressive marketing to university students and the rising housing and transportation costs (Draut & Silva, 2004). It would seem that with the advent of student loans and credit cards, young people are being encouraged into debt from a very young age and with this trend there is a greater likelihood of these habits continuing into adulthood. Compared to New Zealand the problem in the U.S is a lot worse. Around 55% of American adults have credit card debt compared to 40% of New Zealanders (RBNZ, 2008; Draut & Silva, 2004), showing that the U.S could serve as an example of where NZ should avoid going in the future with the way that current trends are going.

Studies that have looked at college students in the U.S have shown that it is often individuals in this section of society that typify society's increasingly high tolerance of debt leading to greater indulgence in it in this case (Norvitis, Szablicki & Wilson, 2003). In the US around 70% of students were found to be possessing at least one credit card, indicating that credit cards are far more prevalent amongst students as compared to the wider population (55%) (Norvitis, Szablicki & Wilson, 2003). This is at least partly due to the way in which students are targeted in the U.S and New Zealand (to

name but a few countries) by banks and other credit agencies as ideal credit customers as they are more prone to spending conspicuously due to a general lack of fixed financial responsibilities such as a mortgage or children. They are also generally already in debt via their student loan, and have therefore already at least partially accepted the inevitability of having debt to afford certain necessities of student life. These two factors have greatly increased the debt that students have got themselves into, and although they are generally not accessing bad credit from personal loan providers or from store cards they are nevertheless creating a situation where they will be heavily burdened for the first few years of their working lives by their debt, if not longer.

A number of articles based on findings in the United States have indicated that the credit card has become the new 'safety net' on which some low-income families rely on to fulfil basic needs (Draut, 2007). The steady growth of the debt to disposable income ratio in New Zealand from around 50% in the 1980s to around 140% by 2004 indicates that low income families may be in a similarly difficult position where debt becomes a necessity to maintain a dignified standard of living (Goh, 2006). When we look at the levels of savings as a percentage of disposable incomes we find that New Zealand is actually fending worse than the U.S with -6.9% as compared to the U.S's 1.7% in 2004 (Goh, 2006). What these statistics imply is that firstly New Zealand households are more inclined to spend beyond their means than US households, and secondly that if this trend continues New Zealanders (average CCD balance \$4,550) could begin to have equally high average credit card debt balances which are currently almost half that of the average Americans credit card balance (\$ 9,000) (Harrison, 2008; Cheung, 2007).

Over- consumption and the Cultural influence of Modern Materialism

Since 2000, New Zealand's trends in average household savings have dropped significantly, with negative rates going from around -\$1,000, to -\$11,000 in 2005, according to the Household Savings survey (2001) and RBNZ (2008) data. Household savings is measured by measuring the difference between current disposable household income and household expenditure, whereby if expenditure exceeds disposable income, then these result in a negative households savings rate (Hull, 2003). Credit card debt is currently at over 5 billion dollars, and 3.3 billion of that is being charged at an average monthly interest rate of 19.5%, making further drops in the household savings rates a large possibility for those New Zealanders with credit cards (RBNZ, 2008). Although,

in relation to other OECD countries New Zealand's drop in household savings is not an isolated case, New Zealand still has one of the lowest savings rates by international standards (Goh, 2006). A number of authors have attributed the growth of modern materialism and a consumer orientated culture with the declining levels of savings among industrialised countries (Watson, 2003). There are a number of definitions of materialism but we will focus on one given by Richens & Dawson, who simply define it as 'possession defined success' (1992). Therefore, if people are increasingly predisposed to being partial to this material related perception of achievement, then a growing proportion of people will take on debt to spend creating a somewhat artificial representation of material wellbeing. From an economist's perspective materialism is seen as a desire to consume goods for non-utilitarian reasons, therefore meaning that they consume for consumptions sake, using assets to define their success and status. Similarly Duesenberry's theory posits when a materialistic philosophy is applied to people in low-income brackets, there is a tendency for them to use wealthier people as a reference group and thus spend according to their reference group which is above their spending capacity (1949). Therefore, the increase in a society's tendency towards possession defined success puts increased pressure on those in the lower income brackets due to a lesser ability to fulfil those success criteria, which is likely to have been the case in New Zealand as people in lower income brackets willingness to take on debt would indicate.

The Normalisation of Debt across the OECD and New Zealand

There are two important issues that arise from the normalisation of credit card use in New Zealand, or in any other developed country. The first is whether or not consumers fully understand the conditions by which they are borrowing money, and understand how the interest rate schemes actually work? The second question is whether the credit card has encouraged consumers to spend beyond their means engendering an over-indebted norm, by which people become contented with almost unsustainably high levels of debt? As part of an international trend, the accessibility of credit to those across all sectors of society has increased markedly over the last couple of decades, mainly due to a number of deregulation policies in the financial sector that has encouraged more people to access credit since their inception (Valins, 2004; Hull, 2003). According to Hull (2003) these deregulation policies can be divided into two categories: reforms affecting financial institutions and macroeconomic reforms. For

financial institutions there was the removal of interest rate controls, and reserve asset ratios increasing their ability to raise funds (Hull, 2003). In terms of macroeconomic reform there was the opening of New Zealand's financial markets to overseas investors and banks were also given better access to overseas credit (Hull, 2003). With this, households' ability to access credit has greatly increased with levels of consumer borrowing growing with alarming speed since the 1980's reforms, leading to both positive and negative impacts on society. On one hand the growth in credit availability has allowed greater flexibility for the consumer who has the freedom to purchase goods and services without having to have access to the money at the time of purchase. On the other hand it has also lead to a greater number of New Zealanders with high interest credit that often allows them spend more money than they would otherwise have access to, leading to higher profits for the financial institutions who have benefited greatly from the reforms over the last 20 years.

Consumers are now constantly inundated with offers for easy credit from credit card companies, but also from other sources such as personal loans, and hire purchase which allow the consumer to delay their payment for the goods and services they purchase for an agreed interest rate. Once seen as a large burden that should be largely avoided at all costs, debt is now widely considered to be an everyday part of life. Merskin asserts that this mentality has spawned from the transition in the 20th Century from a production orientated society to a consumer orientated society as slowly more and more of the products we buy are produced cheaply overseas in third world countries (1998). Therefore, it would seem that allowing large amounts of credit to be lent to the consumer has been used to increase the spending power of the consumer without increasing their income substantially. This means that the 'possession defined success' discussed earlier which is realised in a consumer orientated society is progressed to the point where consumers buying power is at its upper limit no longer withheld by the constraints of individuals disposable income. As mentioned earlier, OECD countries, and especially New Zealand, have a tendency to have higher debt levels than disposable income illustrates the affect that this mentality has had on the saving habits of New Zealanders. With 40% of New Zealanders owning credit cards (RBNZ, 2008) the normalisation of debt has become ingrained into our society, with the U.S having 55% of its population with credit cards, where credit cards and a consumer driven society is more ingrained in their history and culture, their current 'debt crisis' especially in the

housing market may provide a microcosm of what New Zealand may be on the path towards.

One of the major instigators of 'possession defined success' and the consumer driven culture that exists in our society today is the media, which is intrinsically prone to promoting excessive consumption and the importance of material wealth. An article by Martha Starr explains this phenomenon of consumer over-consumption in relation to the US media arguing that this consumer behaviour is mainly due to 'representations of consumption behaviour in contemporary culture' which works to normalize over-consumption, using media that celebrates this kind of irresponsible consumer behaviour (Starr, 2007). This highlights one of the major obstacles to reducing credit card debt and over-consumption in general in New Zealand, and any other industrialized country. With media from television, print, film and popular music contributing to the shaping of what people value, they often contribute towards instilling a sense of the importance of material affluence, linking positive consequences to the attainment of goods and services that are associated with the wealthy, modern individual. The possibility of this trend towards a more consumer driven society being reversed seems almost inconceivable when one considers the growth of advertising, consumerism, and technology which acts as catalyst for this growth. Therefore, there will invariably be a continuation of the pressure by the media on consumers in New Zealand to take on more debt and continue to spend conspicuously, through a widening of avenues for advertising that is likely to continue a number of the quantitative indicators from the Household Savings survey in the same direction.

Unsecured Debt as a necessity to supplement inadequate income

According to a recent survey done by Buzzthepeople on credit cards and other forms of unsecured debt, there is a notably large proportion of the New Zealand population that struggle with their credit card debt (2008). Around 29% of respondents in the survey admitted to using their credit card to pay off bills that their income did not cover (Buzzthepeople, 2008). This indicates that there are a number of households in New Zealand who are living beyond their means and relying on credit to act as a short term band aid for their financial problems. With the high interest rates that accrue on credit cards this can only become a bigger problem in the future for some of these households,

as they begin to use interest bearing debt as part of their weekly budget to sustain their standard of living.

With the growth of interest rates in 2008 the cost of this debt is likely to increase all types of debt only putting further strain on the budgets of New Zealand households. According to the Reserve Bank of New Zealand, interest rates have increased from 18.5% in January 2007 to 19% in January 2008 indicating a trend of slowly increasing costs (depending on a number of economic indicators) to those with large outstanding balances on their credit cards (2008). Furthermore, there is also increasing evidence that more people in the low to middle income brackets are buying basic foods and other necessities of living on their credit cards to make ends meet (Ministry of Consumer Affairs, 2007). As asserted by Robert Scott, these trends are much to the benefit of the credit card industry that makes the bulk of its profits from those of its customers that are least likely to be able to repay their debts, and least likely to make their minimum monthly payments (2007). Therefore, people on lower incomes are increasingly vulnerable to debt consumption as inflation on basic foods and petrol increases, and with it, the reliance on credit cards to offset these price increases with further indebtedness. Other incentives to keep consumers in the debt cycle have been crafted by credit card industries such as reduced minimum monthly payments from 5% to 2% so people have even less obligation to pay back their debts (Scott, 2007). By using this method this means that someone paying their minimum monthly payments (MMPs) may actually never repay their debt over an extended period, without having any knowledge of this and subsequently incurring higher levels of interest.

Another issue that arises from the use of credit card debt by those in the lower socio-economic groups of society is that it can have the effect of hiding some of the more visible aspects of poverty, by allowing the poor to look less poverty stricken in some respects despite their large hidden debts. An article by Draut points out that to lower income families' credit, often in credit card form, is the new safety net for families during times of underemployment and hardship (2007). This concept is elaborated on by Scott who says for the poor "credit subsidizes their insufficient incomes" (2007, pg. 569). This means that for those who are living close to or below the poverty line the credit card can act as a somewhat artificial buffer that can temporarily alleviate poverty by allowing low income families to pay for the necessities on high interest loans. Therefore, any temporary buffer effect that the credit card has can only last a certain

length of time before the minimum monthly payments of a credit card become unsustainable. Once this happens it is not unusual for a household to become crippled with debt that their low income does not allow them to get out of with any ease. In the case of New Zealand a lot of the population on low incomes cannot even access credit cards and have to apply to 'fringe lenders' for credit that has higher interest and related costs that only exacerbate the problem even further.

In a report by Buzzthepeople (2008), the respondents to the survey blamed their high levels of indebtedness on increasing costs of living in New Zealand on goods such as petrol, food and rent that are not keeping up with seemingly stagnant incomes for a large number of New Zealand households. To illustrate the dependence on credit cards that some lower income households have the same survey undertaken by Point Research found that 29.2% of households appear to have used credit cards to pay their bills, due to a lack of sufficient income (2008). Similarly, 29.5% of respondents in this same survey felt that their debt and/or credit card use was a problem indicating that almost a third of New Zealanders are somewhat reliant on their credit card and are not using them for just the occasional luxury item, but as a means of subsistence. This type of use of credit card debt is not consistent with how credit cards are usually perceived and marketed as a tool to indulge in buying some expensive goods that may have previously been just out of reach.

Attitudes to Credit Cards and Debt in General

A number of articles observed changing attitudes to credit cards and other forms of debt as a large contributor to the growth in both these areas. Consumers are now more than ever are willing to use credit as means to finance current consumption (Chien & Devaney, 2001). Although the literature differs as to what extent it sees attitudes to credit as having a direct correlation with how people use credit. Due to these changes in people's preferred method of payment there has been a recession in what is referred to as the 'cognitive connect', by which consumers do not rationalise that they are spending hard earned cash when they flip out their plastic credit card (Scott, 2007). This phenomenon can also be referred to in relation to the use of eftpos where a plastic card instead of cash is used to pay for a good or service. What this means is that consumers through the use of 'virtual money' (plastic cards) can become less aware of the scale of their spending, as compared to if they were to use cash, because the card does not

signify as accurately what the value of their purchase is, and therefore may not hold as much significance in their memory. Consequently, people's spending habits are likely to become less prudent as the deterioration of the 'cognitive connect' allows them to spend with less of a consciousness of their monetary limits. For example, if someone is only using cash and has a certain amount in their wallet then they have an easily identifiable limit to their consumption, whereas a credit card and to a lesser extent a eftpos card does not visually display its monetary limit which likely to be much more lenient.

Attitudes to credit cards are also heavily influenced by demographic and socio-economic factors that lead to differing levels of acceptance of debt. For example, an individual on a high-income is more likely to see debt in a more positive fashion because of the relative ease by which they can pay it off. According to studies by Mathews and Slocum (1972), high-income consumers were more likely to have favourable attitudes to credit cards than those with lower incomes (Chien & Delaney, 2001). Younger people also were found to have more favourable attitudes towards credit card use as well. If one considers that it became mandatory for creditors to print on the agreement for a credit card the length of time it would take someone to pay off their credit card making monthly minimum payments then attitudes to credit cards may become less positive in the future. Some articles (Buzzthepeople, 2008) suggest that campaigns to increase consumer awareness of the conditions of credit cards and instalment debt may be required to re-educate people as has been done with products in the past like cigarettes and seatbelts.

When we differentiate between different socioeconomic groups in society we can also expect different consumer trends in relation to how the individual treats debt. In the case of those with high socioeconomic status, they are more likely to seek financial advice from multiple sources and generally take broader and more sophisticated approaches to personal investment (Bird, Hagstrom & Wild, 1999). In contrast to this, the less affluent borrower is less likely to fully understand the conditions of his or her credit card, and is less inclined to pick the most suitable form of credit for them, if in fact any credit option is suitable (Bird, Hagstrom & Wild, 1999). For example, a lot of the resources and information on how to escape and control debt is on the internet, which most low-income families do not have, excluding them from this much needed information. Furthermore, wealthier person's social networks are likely to be more financially

literate and therefore their sources of information may be more enlightened on the finer details of credit arrangements essentially giving them more social capital in this respect.

Hierarchy of forms of Debt

The three main forms of unsecured debt are personal loans, credit card debt and bank overdrafts, all of which are commonly used by New Zealanders. According to the Household Savings Survey just over 40% of New Zealanders had credit card debt, and bank overdrafts were also common at around 30% of total respondents, but were worth more in total than credit card debt (2001). Another type of debt that can be quite detrimental to society is hire purchase debt which is a type of secured debt because the creditor can always repossess the product if payments are not made in time. Around just under 20% of respondents in the HSS were in hire purchase debt. In terms of the interest rates charged on these different types of debt a bank overdraft is the most favourable form of debt especially for those who are classified as students by their banks who can get over \$1000 at little or no cost to them. In contrast to this, credit card debt has a lot more unforeseeable charges that can add up very quickly, and have interest rates close to the 20% mark which are generally not charged to bank overdrafts.

By investigating the different types of credit available to New Zealanders I have constructed a 'Hierarchy of Debts' based on average interest rates involved, and also considering the types of goods or services acquired through the debt according to their utility in creating wealth in the future (see figure 1). This means that a debt type such as a student loan which typically leads to a tertiary qualification would generally have greater long term value than a television or a car put on hire purchase, that additionally has far higher interest and added costs associated with it than a student loan which under current government policy has no interest costs. Therefore, using this rationalisation hire purchase debt must sit higher on the debt hierarchy than student loan debt due to its inferior utility to the individual. Although mortgages and student loan debt are easily the biggest sources of debt in New Zealand, all the other forms of debt that are sitting higher on the debt hierarchy are growing in their popularity, pointing towards greater costs on interest and related charges for a significant portion of the New Zealand population.

Figure 1: Debt Hierarchy for Credit Providers in New Zealand

- 1) *Store Cards*: These can be very costly with interest rates that go up to 23%.
- 2) *Personal Loans*: These loans are usually taken by people who cannot gain access to a credit card due to bad credit ratings and are in the lower income brackets. These loans are unsecured and are usually charged at interest rates around 15% - 25%, which is more costly than any other form of debt, once fees are taken into account.
- 3) *Hire Purchase*: These loans are also strongly correlated with people in the lower income brackets and usually have very high interest rates (HSS, 2001). These vary between 17-25% and often have a number of set up charges.
- 4) *Credit Cards*: Credit Cards are generally seen as for the wealthy but are often accessed by people on low incomes who often cannot keep up with monthly minimum payments. Interest rates go up to 20% although if the debtor manages to make payments off their cards responsibly interest charges are very low if not nonexistent.
- 5) *Bank Overdrafts*: This kind of debt is the most favourable type of unsecured debt compared to credit cards and personal loans as the interest rates are generally a lot more reasonable and there are less hidden charges associated with them. Furthermore, bank overdrafts have a set limit which a customer is not allowed to exceed, whereas a credit card allows the individual to exceed their credit limit with costs (higher interest & fines) charged to the credit card.
- 6) *Student Loans*: This is a kind of unsecured loan as the government cannot take your education back from you and is generally a reasonably worthwhile investment given that the debtor actually completes their chosen qualification.
- 7) *Mortgages*: This is a secured loan whereby the bank owns the house until the mortgage is paid off, and is generally a reasonably sound investment in a person's financial future similar to that of a student loan.

One of the aspects of this debt hierarchy is the higher up the hierarchy you go (the worse the creditor), the more likely the debt is to be accessed by those in the lower socio-economic groups in New Zealand generally referred to as 'financial exclusion' (Valins, 2004). This is alluded to in Valins's report on debt in NZ where he discusses the fact that a lot of personal loans are being created by "non-status" financial firms to poor people who cannot get access to overdrafts or credit cards, and due to the greater risk involved have much higher interest rates to allow for the greater risk of default (2004). The amount of research into this particular area of the debt problem in NZ is very limited so it is difficult to make any estimation as to the size of this problem in NZ. It is clear, given the growing amount of 'non-status' providers that are becoming

available in low socio-economic areas, there is definitely no shortage of supply of instant finance loans (Buzzthepeople, 2008). Store cards which sit at the top of the hierarchy are being accessed by people across the board of income brackets are seen as more legitimate than personal loans from fringe lenders, but are nevertheless just as costly to the consumer.

Figure 2: Consumer Credit Market in NZ (Ministry of Consumer Affairs, 1999, pg 17).

Market segment A: reasonably large transactions secured against secure and tangible assets (usually mortgages supplied by banks and other mainstream financial institutions)

Market segment B: smaller-sized transactions secured against the credit-worthiness of the borrower (e.g., mainstream credit cards)

Market segment C: moderate-sized transactions secured against less secure assets than housing (typically hire purchase)

Market segment D: variable-sized transactions to people with poor credit records or few assets (usually provided by fringe financial institutions).

Figure 2 shows one way in which the credit market can be separated into four parts with those people fitting into ‘market segment D’ being the ‘financially excluded’ that the next section of the report is focussing on. These people are those that cannot afford to gain access to mainstream credit like those in segment B and therefore face much more oppressive credit contracts with higher interest rates. The majority of Household Debt in New Zealand would fit into ‘market segment A’ with mortgages accounting for 80% of New Zealand’s household debt in the HSS (2001). As you move down the market segments from A to D the conditions of the credit become more expensive and oppressive with higher interest rates involved, as the creditors theoretically have more to risk on their loans.

Financial Exclusion

Most of the literature that I have looked at so far examines the problems associated with households and individuals getting into debt, but there is another group of people that suffer because of a lack of access to reasonable low interest credit. These are the low-income families in NZ that find it very difficult to access affordable credit, which is a problem not explored by a lot of the governments quantitative data as it does not

measure the cost of credit not accessed, due to the relative difficulties in obtaining data on fringe loans as compared to mainstream credit (Valins, 2004). Therefore, although credit card debt can create a number of problems when not used responsibly, it is a much preferable option than that of store cards and personal loans from 'non-status lenders'. This means that depending on the socio-economic position of a particular person or household, lack of access to credit can have similar negative social impacts to that of over access. According to Brooker and Whyley (2004), this problem has largely been ignored as a social policy issue because borrowing is seen as a luxury rather than a necessity. But for a number of families on low-incomes and benefits, borrowing money is largely unavoidable and a key strategy to financial survival (Ministry of Consumer Affairs, 2007; Brooker & Whyley, 2004).

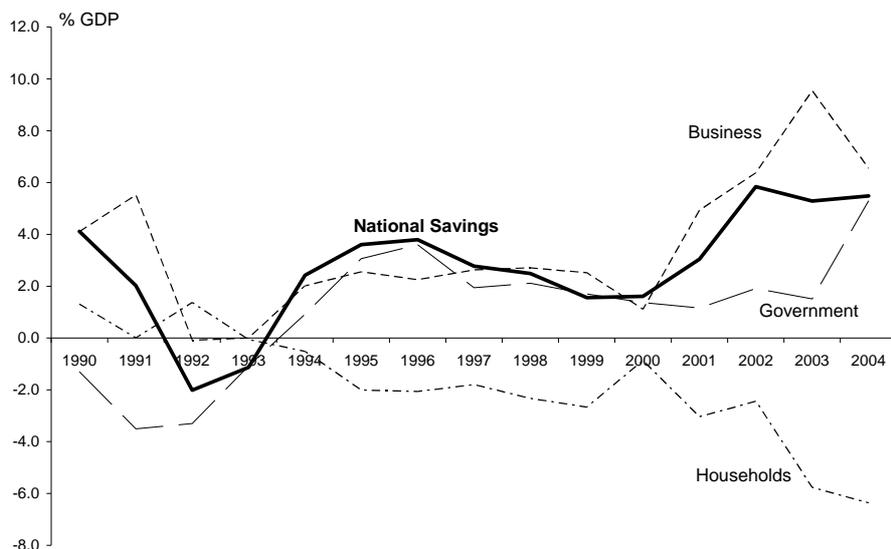
A report undertaken by the Ministry of Consumer Affairs has begun to shed some light onto the topic of 'fringe lenders' who those 'financially excluded' individuals often access. The report confirms that Pacific people on low incomes and beneficiaries are the main targets of these lenders who are concentrated in the poorer areas of Auckland such as South Auckland, and the poorer districts of the West (Ministry of Consumer Affairs, 2007). These lenders are characterised as having higher interest rates than mainstream lenders, specialising in small cash loans, and may provide limited documentation and have overly simplified contracts (Ministry of Consumer Affairs, 2007). Therefore, for a large number of cases the debtors are not clear on the finer details of the conditions of their loan when they sign people up to them often leading to the customer incurring added costs on top of the original interest that they were not aware of. This is just one of a number of negative repercussions that the financially excluded face when preferable types of credit become unavailable. The recent growth of fringe lenders that provide high interest cash loans to lower income New Zealanders who cannot access credit from mainstream lenders has also been a factor in ensuring that all sectors of society - poor to the wealthy - have experienced increased access to credit. Subsequently, New Zealand has one of the highest household debts to income ratios in the OECD at 162% although a large majority of this debt would be mortgage related which this report does not explore in any detail. Nevertheless, even if the majority of this debt is related to mortgages it is still likely to have an effect of encouraging New Zealanders to access other types of debt as a large portion of their disposable income is taken up by mortgage repayments.

7. Data Analysis from HSS and Buzzthepeople

Measuring over indebtedness in NZ using macroeconomic indicators

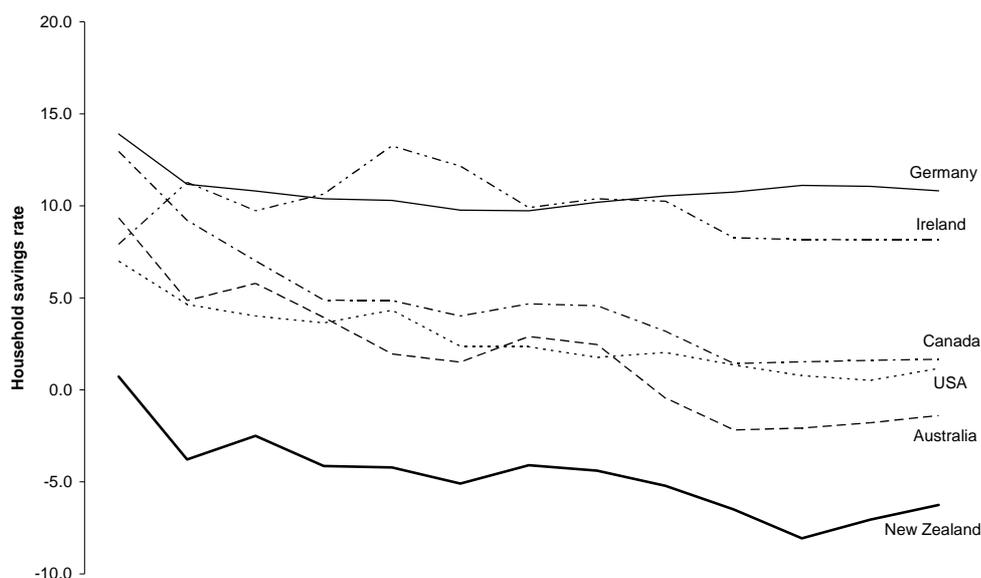
In terms of measuring over-indebtedness in New Zealand as compared to other countries it is very difficult to measure what exactly constitutes over-indebtedness, and there is a limited amount of literature on this internationally (Valins, 2004). Macroeconomic indicators like the household savings rate which measures disposable income minus expenditure shows that since the early 90's there has been a large drop from around 3% of Household Income to -4% by 2001 according to calculations from the RBNZ, meaning that New Zealanders are collectively spending beyond their means/annual income (Hull, 2003). According to OECD data in 2003 this household savings rate had decreased to -6.4% which is the lowest in all measured OECD countries (see figure 3) (RBNZ, 2003). However, the graph also shows that all of the other OECD countries displayed in this graph had a drop in their household savings rates in the same time frame, New Zealand still sits almost 5% lower than Australia which is the next major OECD country up from us in this particular measure (see figure 4).

Figure 3: Changes in national savings rates, 1990-2004



Source: Reserve Bank of New Zealand, 2008

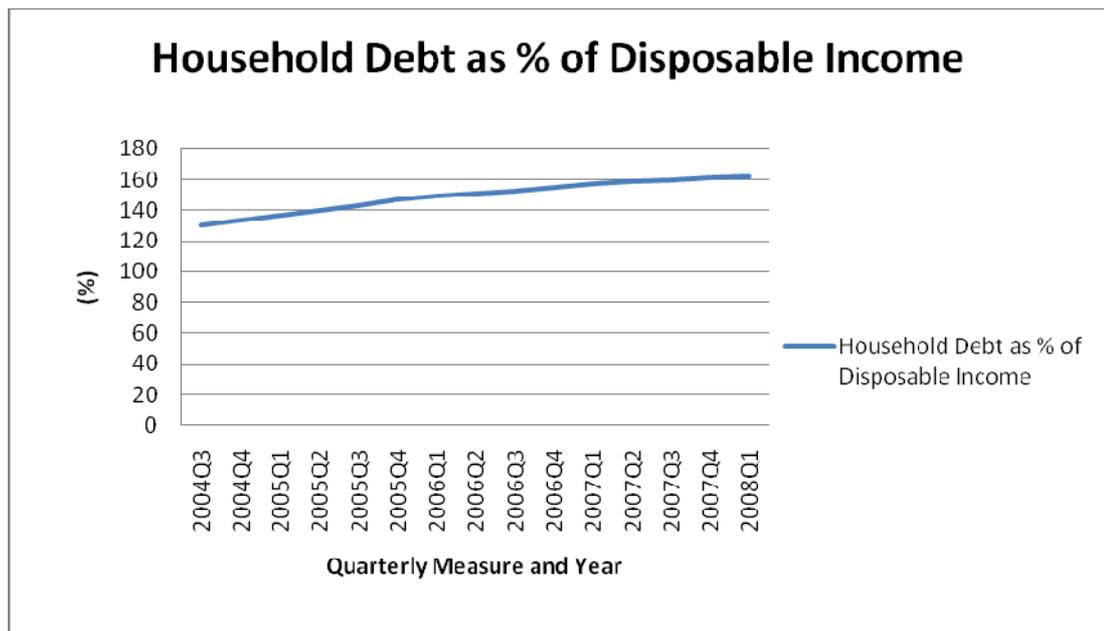
Figure 4: Household Savings Rates (as a percentage of national disposable income), actual and estimated, for selected OECD countries, 1990–2006



Source: OECD 2007

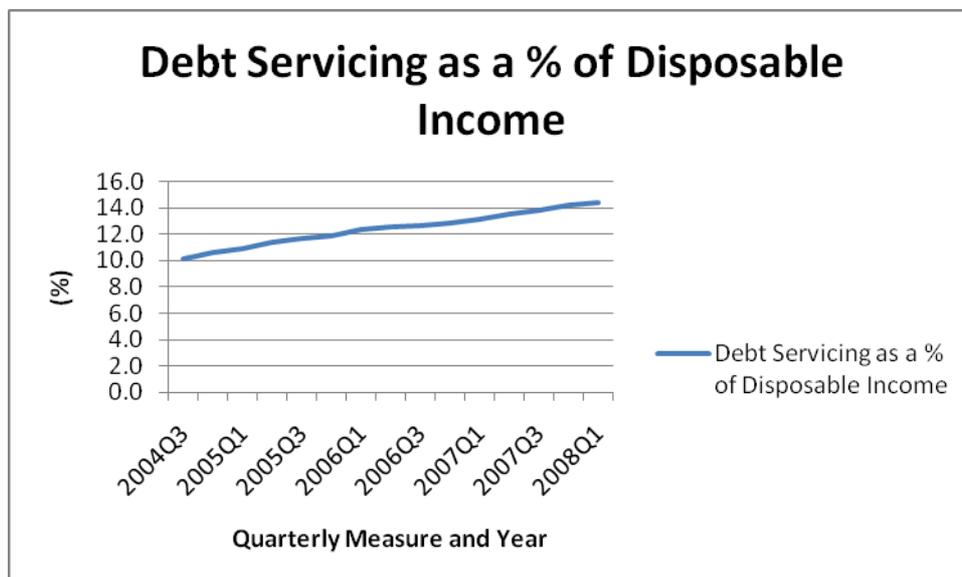
One of the main precursors to low savings rates could be linked to the growing Household Debt to Income ratio which has been steadily getting worse over the last 5 years (refer to figure 3). The figure was last recorded to be at 162% in the first quarter of 2008, meaning that the average household would take over a year and a half to pay off all their debts if they spent all of their income on doing so (RBNZ, 2008). Compared to other OECD countries such those in Europe and the U.S this is the third worst ratio and is further evidence that New Zealand's debt problem though not unique, is further developed than almost all other countries in the OECD according to these most accessible indicators. Although these indicators do not explore or compare which countries disposable income has the most value relative to the local cost of living, meaning that disposable income levels may be misleading in terms of how far that money can go in maintaining a high standard of living. Although, a report by the OECD in 2007 did state that New Zealand's standard of living was falling behind other OECD countries when measured in relation to GDP or National Income per person (OECD, 2007).

Figure 5: Household Debt as a % of Disposable Income



*Sourced RBNZ (2008)

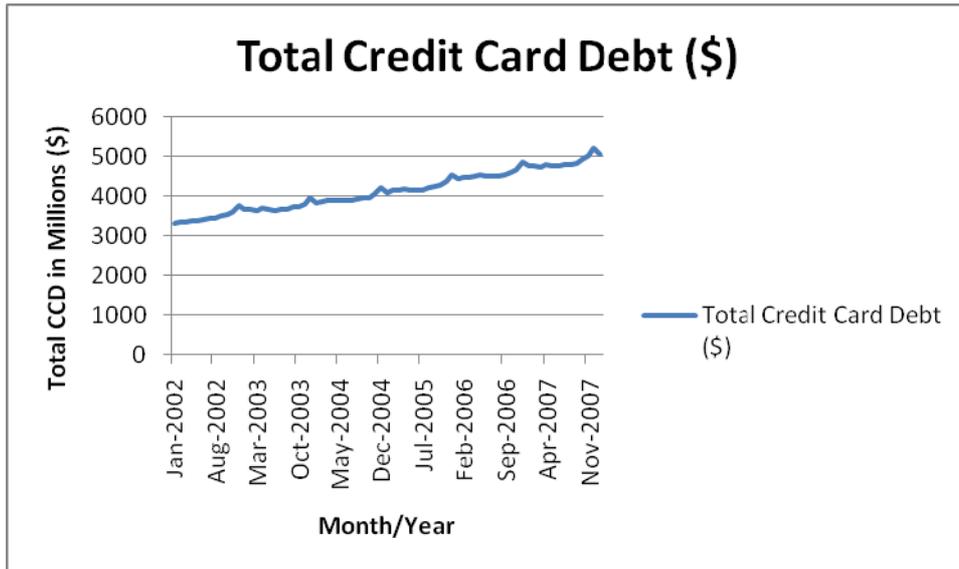
Figure 6: Debt servicing as a percentage of Disposable Income



*Sourced RBNZ (2008)

Another important indicator which calculates the interest paid on all household debt as proportion of disposable income has also been steadily increasing during the same time frame, going from 10.1% half way through 2004, to 14.4% currently (RBNZ, 2008). As credit card debt grows, the amount of interest that New Zealand credit card holders have to service will also increase.

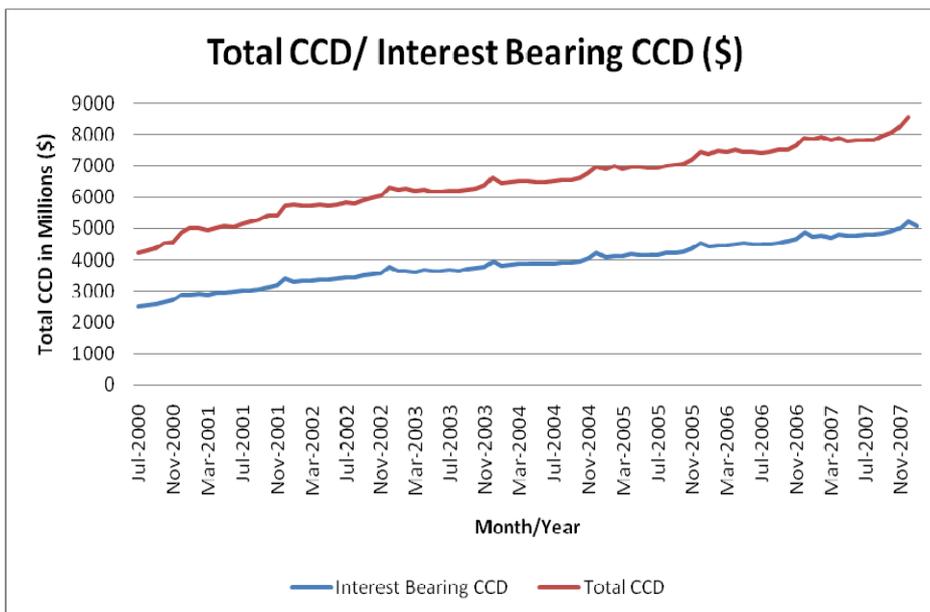
Figure 7: New Zealand's Total Credit Card Debt



*Sourced RBNZ (2008)

This graph clearly illustrates how much credit card debt has grown in the last 5 years in New Zealand with the total credit card debt reaching \$5 billion this year, from being just over 3 billion at the start of 2002. This shows New Zealanders have an ever increasing tendency to use increasing amounts of credit to fund their spending throughout the last 5 years.

Figure 8: New Zealand's Total Credit Card Debt/Interest Bearing CCD



*Sourced RBNZ (2008)

This graph above indicates that both forms of credit card debt have been growing in a reasonably proportionate fashion since 2000. It also illustrates that a large proportion of the growing credit card debt is not just debt that is being paid off on a monthly basis, and over 1 billion of the growing debt has come from an inability or lack of competency from the consumer to pay off their credit cards regularly. The current interest rate on this Credit Card debt is now at 19%, which means that there is great potential for this debt to increase in the near future.

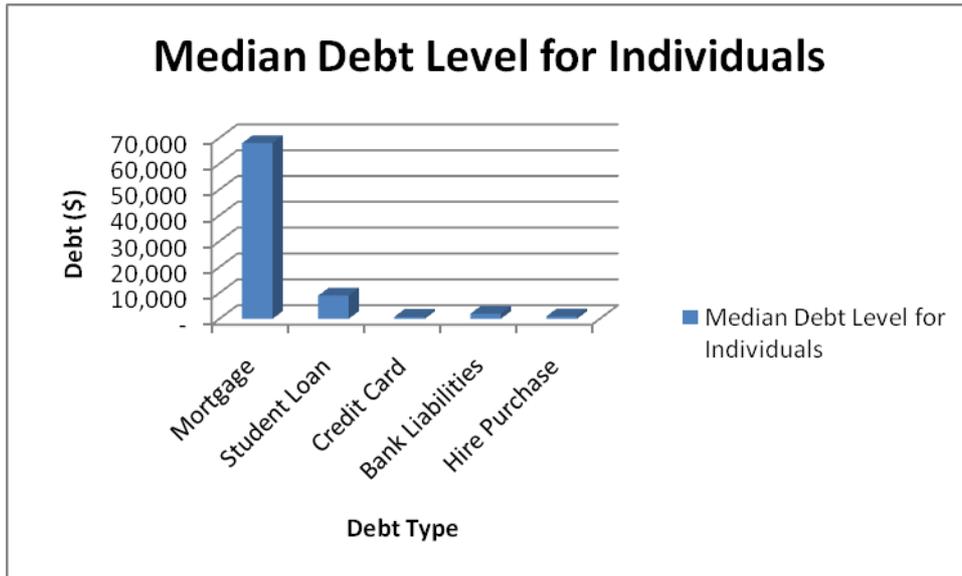
Debt in New Zealand and Wealth Distribution

When one considers wealth distribution in New Zealand, with the bottom 30% of New Zealanders wealth collectively sitting below zero, meaning that the bottom 30% of New Zealanders on the wealth distribution curves wealth added to together equals zero due to the debt of those in the bottom 16% cancelling the positive wealth of the following 14% approximately (Cheung, 2007). A growing proportion of this debt is due to unsecured debt such as credit cards, personal loans and bank liabilities especially for the poorest people in New Zealand. Prior research in the area of credit card use amongst the poor has indicated that credit cards tend to give false expectations of more disposable income than actually is available (Manning, 2000). In other words, although credit cards give those in the lower socio-economic groups a chance to spend money beyond their budget constraints, their stagnant incomes do not allow for this spending to last. Ultimately, due to the growth in unsecured debt, the proportion of the New Zealanders living with negative net worth is likely to increase, further enhancing the wealth inequalities that already exist. The Household Savings Survey revealed that 16% of New Zealanders had a negative net worth, and at the other end of the scale 70% of New Zealand's net worth was held by those in the wealthiest top two quintiles.

Amount of Debt by debt type and individual characteristics related to debt levels

In this section of the data analysis we will look at the median amounts owed for different types of debt. Then using microeconomic indicators we will move on to look at non-mortgage debt types more specifically in relation the demographic characteristics (e.g. age, ethnicity, etc) of the debtors in these non-mortgage debt types.

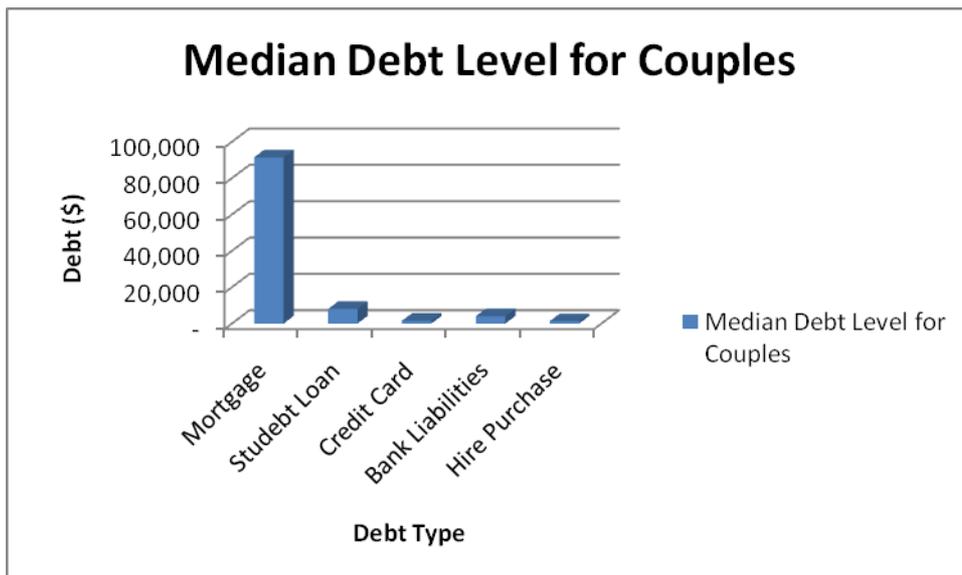
Figure 9: Median Debt Levels for Individuals



*Sourced from HSS (2001)

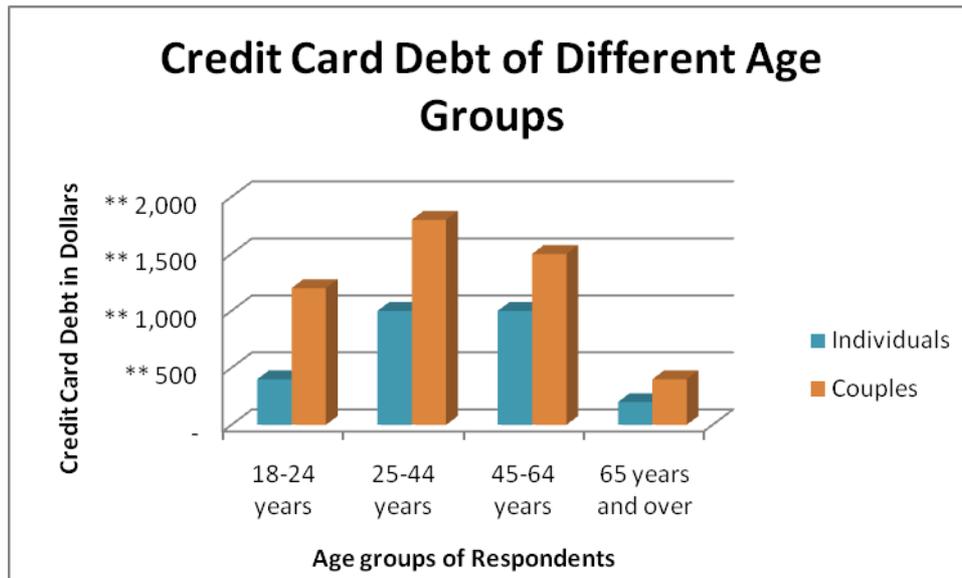
Figure 10 below indicates that mortgage debt for individuals is the biggest type of debt that people held, followed by student loans. For couples, as displayed in figure 6, mortgage debt is also the largest debt type by an even larger margin as couples are more likely to take on a mortgage than individuals (Gibson, Le & Scobie, 2005). In terms of debt in the last three categories bank liabilities was the largest at \$2,000 for individuals and \$4,000 for couples.

Figure 10: Debt Levels for Couples



*Sourced HSS (2001)

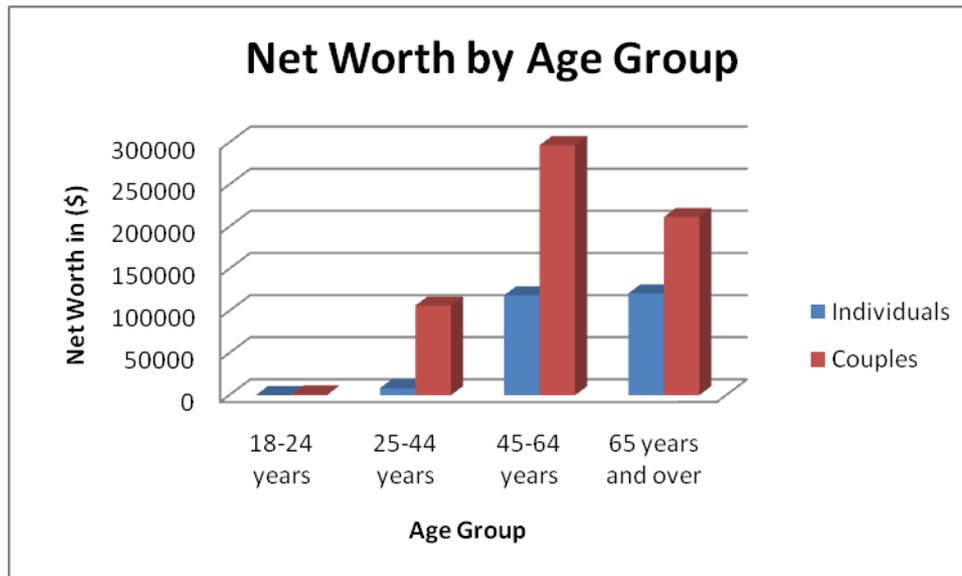
Figure 11: Credit Card Debt of Different Age Groups



*Sourced from HSS (2001)

The graph above shows clearly that on average couples in the 25-44 year old age group were the worst off in respect of having the most credit card debt (Household Savings Survey, 2001). The graph is also consistent with the life cycle - permanent income model (explained in the literature review), as respondents were more likely to borrow money early in their working life, which according to the theory is to make up for their lower income which increases as they get older. When we look at the Net Worth according to different age groups the same life cycle income model is supported with individuals and couples wealth increasing as they age, and slowly tailing off right at the end of the life-cycle.

Figure 12: Net Worth by Age Group

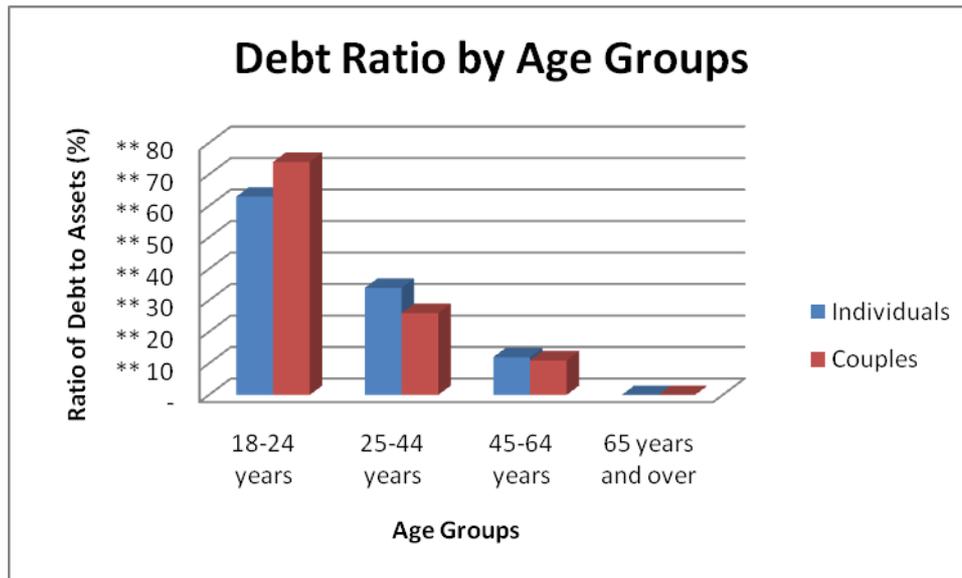


*Sourced from HSS (2001)

The respondent's debt ratio including all forms of debt gives an even clearer indication of the life cycle - permanent income model (LCPIM). Those in the 18-24 year old age group are much more likely to have high levels of debt in comparison to their assets and credit. A number of articles indicated that there was an increasing amount of pressure on young people in this age group to take on the use of a credit card, and a student loan means that a large financial burden can be put on them at this age that takes a long time to get out of as they join the workforce. According to the life cycle- permanent income model, this phenomenon is to be expected as the debt acquired in the 18-24 age range is calculated as they will be making an increasing amount of income as they age, and therefore the debt they spend will smooth out their consumption over their lifetime. According to the social exchange theory, the explanation for this growth in wealth as age increases may also be related to respondents getting better financial advice from their social networks as they get older, although the effects of this may be negligible.

Another aspect of credit card debt is that the younger age groups tend to be in greater credit card debt than those respondents who are in their 40's and beyond (Household Savings Survey, 2001). This means that one could argue that once this age group moves into their middle age years and another batch of young credit card debt inclined students comes up through the ranks, the debt of those in the 45-65 years could be a lot worse in the future especially considering the recent drop household ownership.

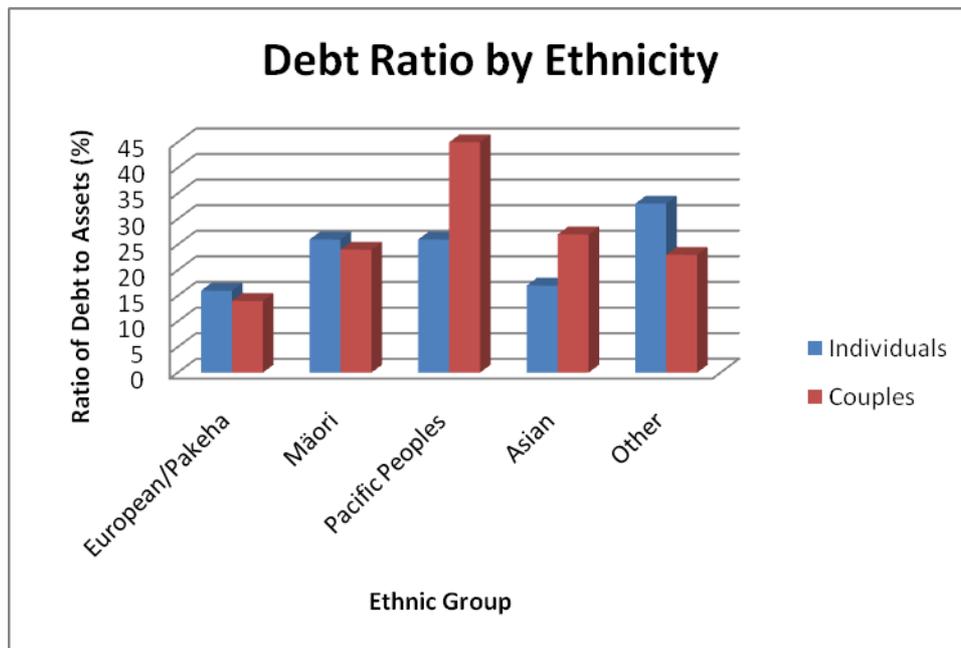
Figure 13: Debt Ratio by Age



*Sourced from HSS (2001)

*Note: for Figures 11-23, the bar on the graph representing 'couples' is always on the right of the 'individuals' bar for each category on the x axis.

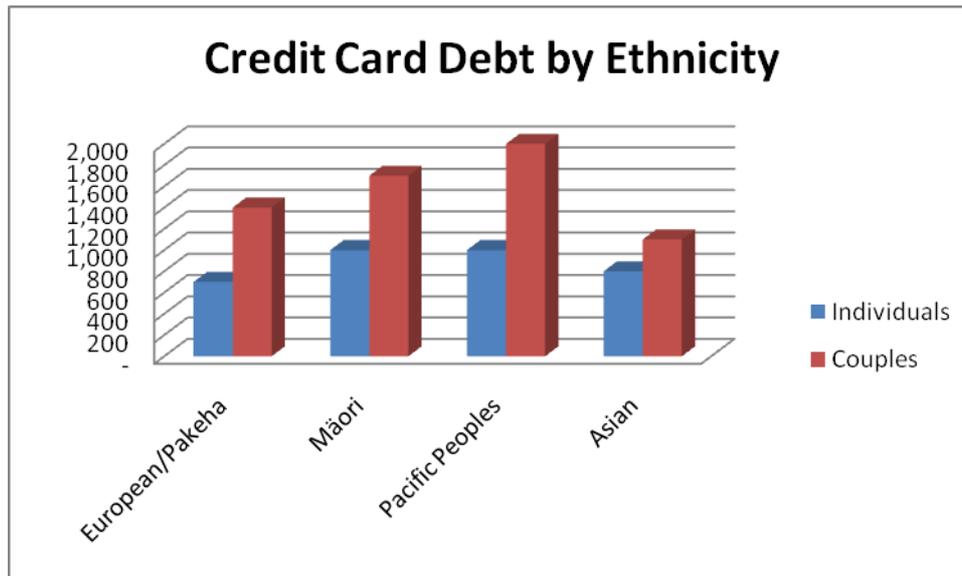
Figure 14: Debt Ratio by Ethnicity



*Sourced HSS (2001)

Figure 14 illustrates that European/Pakeha are the respondents with the smallest debt ratios in New Zealand with European/Pakeha couples being the best off. Pacific Islander couples had easily the highest debt/asset ratio at almost 45%, although couples in European and Maori groups were generally better off than their single/individual respondents from the same ethnicity.

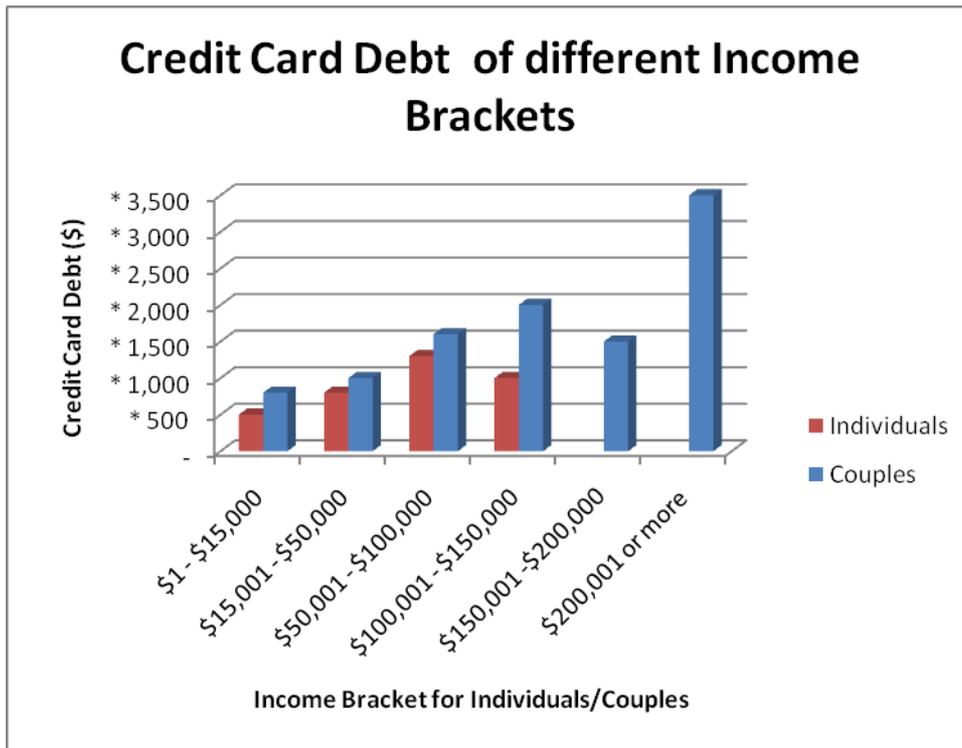
Figure 15: Credit Card Debt by Ethnicity



*Sourced HSS (2001)

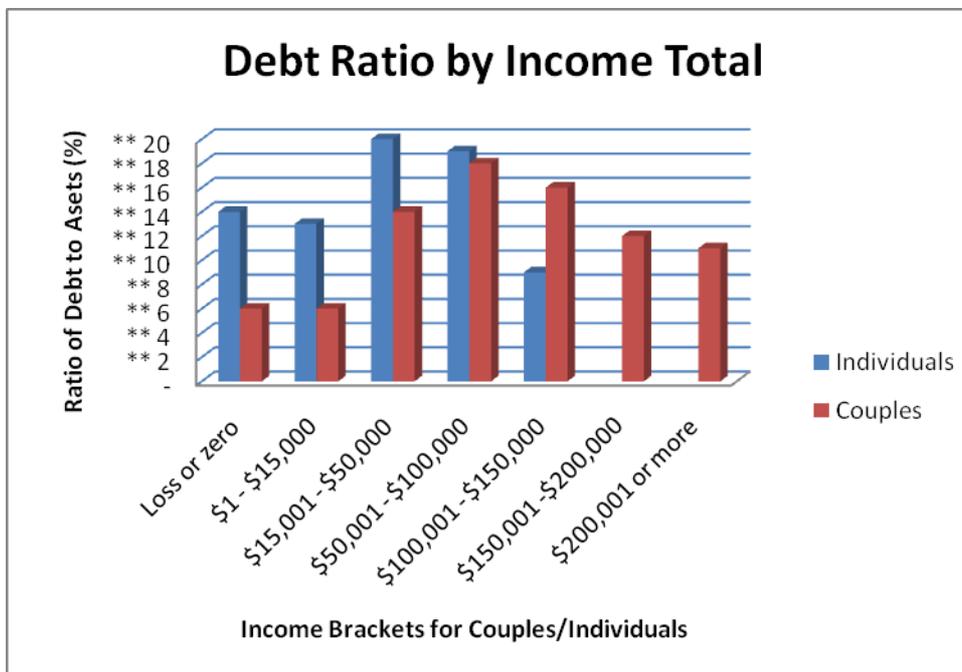
Figure 15 above indicates that Pacific Islanders have the highest level of credit card debt with individuals and couples having median debts of \$1000 and \$2000 in that order. European individuals had the lowest amongst non-partnered respondents whilst Asian couples had the lowest debt. In this particular dataset the 'other' ethnicity group had the highest Credit Card Debt for both individuals and couples, but it is difficult to make any assumptions about the ethnicity of those respondents who classified themselves as 'other'. As well as Pacific peoples having the largest Credit Card Debt they were also most likely to access personal loans from 'fringe lenders' and were often targeted by these financial institutions (Buzzthepeople, 2008). Therefore, the data would indicate that pacific peoples are the most vulnerable ethnic group in relation to the higher levels of big interest debts that they have which sit at the top of the hierarchy of debt in figure 1 (see pg.28).

Figure 16: Credit Card Debt by Income Bracket



*Sourced HSS (2001)

Figure 17: Debt Ratio by Income Total

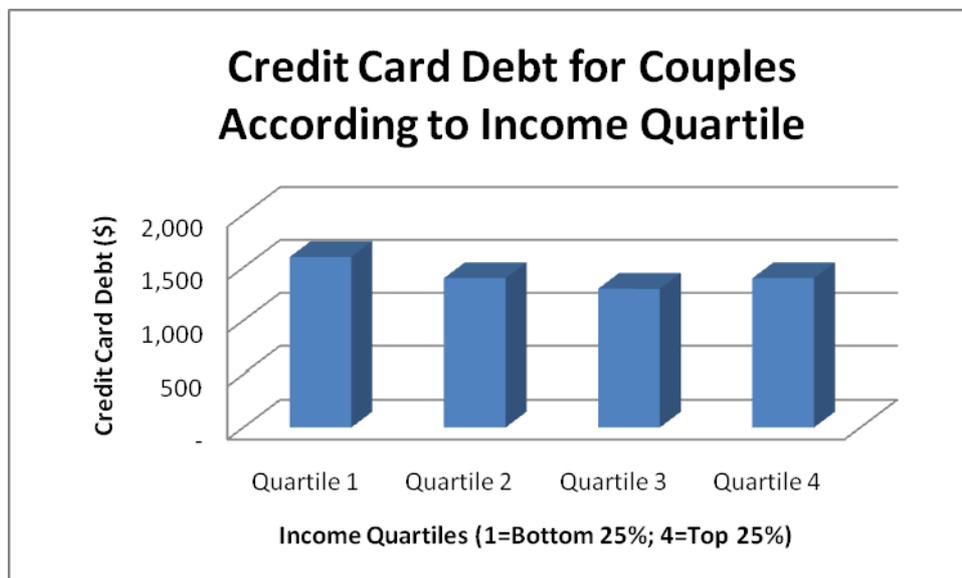


*Sourced from HSS (2001)

Figure 17 indicates that generally New Zealanders increase their credit card debt as their income increases. Although couples with a combined income of under \$50,000 tended

to have quite a lot of debt, with an average \$1,000 in the \$15,000 to \$50,000 income bracket. In relation to debt ratio individuals with incomes of less than \$50,000 had the highest debt ratio with their debts being worth almost 20 times their income in the \$15,000 - \$50,000 income bracket.

Figure 18: Credit Card Debt for Couples according to Income Quartile



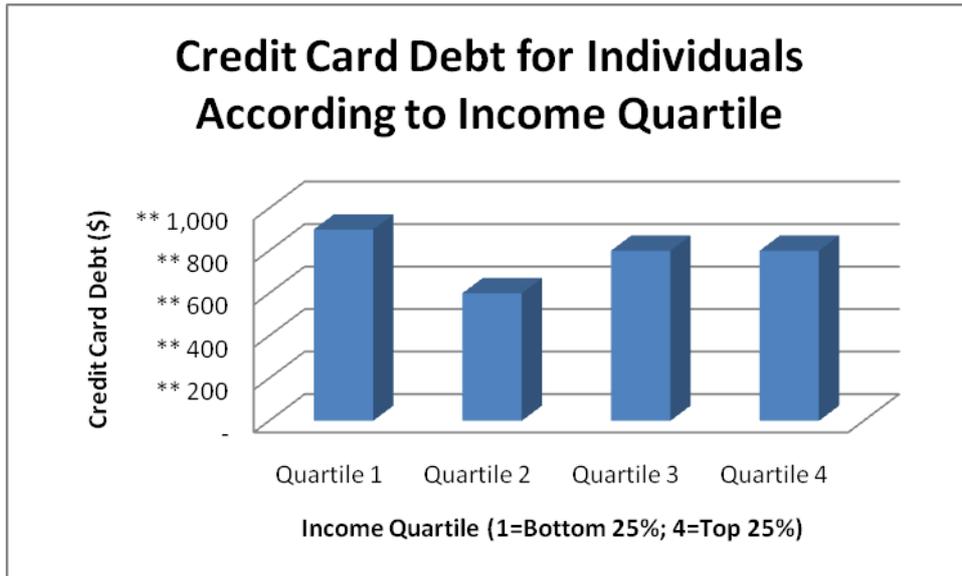
*Sourced HSS (2001)

Note: The score for each quartile was the median credit card debt of that income bracket to the nearest \$100.

Figure 18 indicates that those couples in the lowest quarter of income earners in New Zealand have the highest amount of credit card debt with a median debt of \$1,500. This is a concerning statistics as those in quartile 1 would have the greatest difficulty getting out of the CCD that they currently hold and would be charged higher interest rates according to their higher debt balance. Data looking into other high interest non-mortgage debts other than hire purchase in relation to income quartiles could also potentially provide a good insight into the full range of debts accessed by different income brackets. Quartile 3 was the lowest with a median of only \$1,300 (Household Savings Survey, 2001).

The same data also showed that Maori and Pacific Islanders were more likely to have higher credit card debt with a median debt of \$1,000 as opposed to \$700 for Pakeha/European which is not displayed above.

Figure 19: Credit Card Debt for Individuals according to Income Quartile

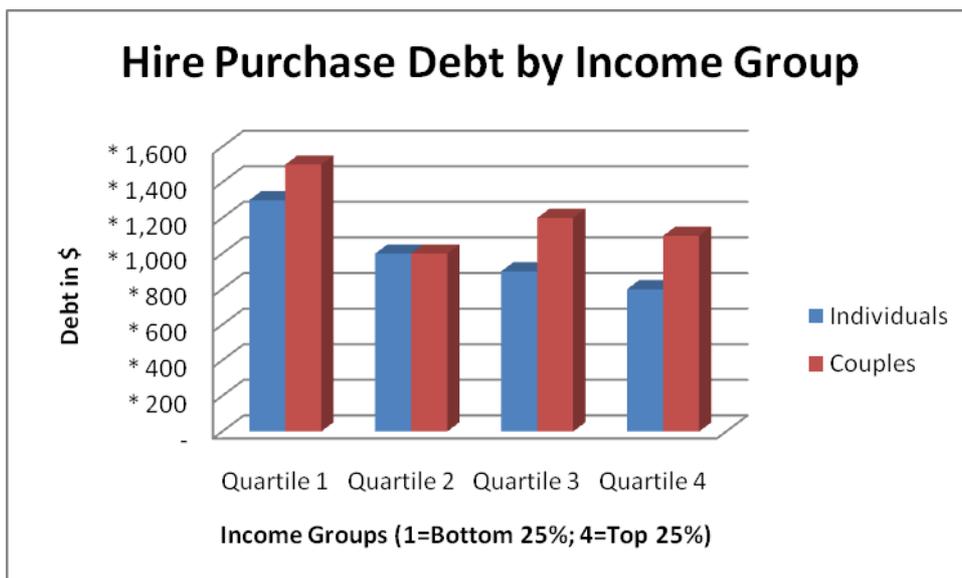


*Sourced from HSS (2001)

Note: The score for each quartile was the median credit card debt of that income bracket and all medians are rounded to the nearest \$100.

In regards to age groups those in the 25-44 and 45-64 year old age groups had the highest median credit card debts for individuals of \$1,000 in both cases (Household Savings Survey, 2001). Couples had even higher debts in these same age groups with the 25-44 median debt being at \$1,800, and 45-64 year olds having a median debt of \$1,500 (Household Savings Survey, 2001).

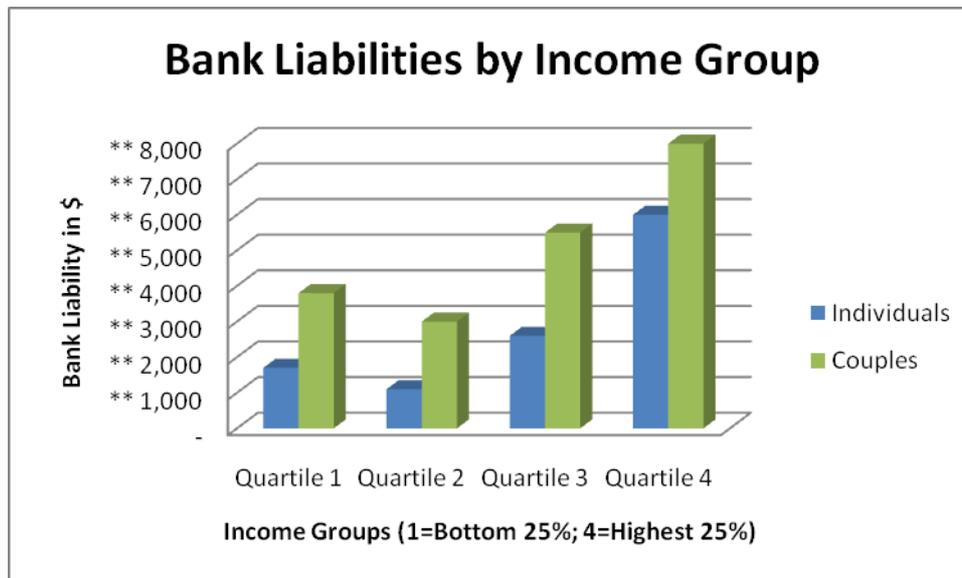
Figure 20: Hire Purchase Debt by Income Group



*Sourced from HSS (2001)

Figure 20 above shows that Hire Purchase debt which is another type of high-interest non-mortgage debt, like that of credit card debt, is more strongly correlated with lower income groups, especially for individuals. Individuals in the Quartile 1 income group had a median debt of \$1,300 whilst those in Quartile 4 only had HP debt of \$900. Similarly, those couples in the Quartile 1 group had a median debt of \$1,500 whilst those in Quartile 2 had the lowest HP debt at \$900. This illustrates that Hire Purchase debt is as much if not more of a burden on those in the lower income brackets as that of credit card debt. Although the total amount of Hire Purchase debt (\$714 million) was much lower than that of credit card debt which amounted to a total of \$1.93 billion, almost three times the total value.

Figure 21: Bank Liabilities by Income Group

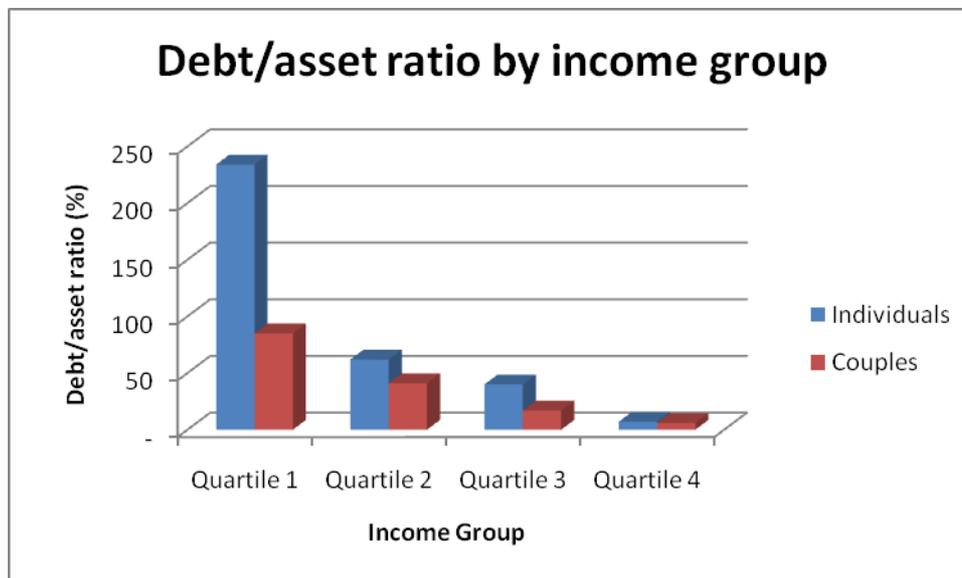


* Sourced from HSS (2001)

Bank Liabilities had the highest total debt, than that of credit card, and hire purchase, adding up to a total of \$6.7 billion, more than three times higher than the next biggest total debt source credit cards. As Figure 21 above indicates in contrast to hire purchase debt, bank liabilities are distributed more amongst the wealthier sectors of society with Quartile 4 having the highest level of bank liabilities for individuals and couples with a combined median of \$7000. Although, couples in Quartile 1 did have a notable \$3,800 in bank liabilities that would appear to be quite high considering their relatively modest incomes making the debt more difficult to pay off in the future. Bank Liabilities is the most preferable type of non-mortgage aside from student loans, and it is encouraging

more commonly accessed (see figure 9, pg.37), than credit cards and hire purchase, and should be considered when trying to consolidate debt away from credit cards with high interest, so as to reduce debt servicing costs.

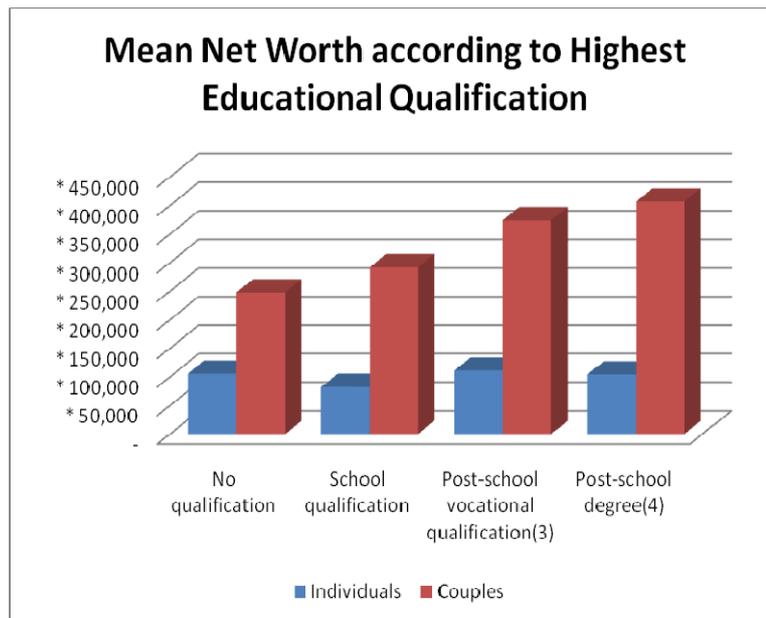
Figure 22: Debt to Asset ratio by Income Group



*Sourced from HSS (2001)

Figure 22 indicates that New Zealand individuals in the bottom quarter of income earners have a very high debt to asset ratio with a 234% score indicating that the value of their debts is more than two times the value of their assets. This group's debt situation is much worse than that of any other income group in New Zealand. Even for those couples in the bottom quartile they still have a debt/asset ratio below 1 meaning that they have more asset value than debt.

Figure 23: Mean Net Worth according to Highest Qualification



*Sourced HSS (2001)

Figure 23 above, relating to net worth by educational qualification indicates that for couples the higher the level of educational attainment the higher the net worth level with couples with a post-school degree reaching a mean net worth of \$407,000. Individuals on the other hand did not show as clear a positive correlation between higher qualifications and higher net worth as those with no qualification (\$105,600), had a higher mean net worth than those with a post-school degree (\$104,200). Although generally those who had higher qualifications would be in a better position than those below them to pay off any existing debts that they were carrying on their credit cards, or through bank liabilities or hire purchase.

Looking at the Household Savings Survey (2001), respondents with 'no qualification' have the highest level of credit card debt compared to those with school and tertiary qualifications, with a mean CCD of \$2,484. Although those with degrees from a tertiary institution have a higher CCD than those with only school qualifications - which may indicate that students who spend a number of years at University are more likely to get into the habit of using debt as they often have to use debt to get by. Data showing CCD in relation to an individual's number of years at University also showed that students that stayed at University for longer periods generally had more CCD (Household Savings Survey, 2001). Individuals (non-couples), who had been at University for 2 years, had a mean CCD of \$3,740, whilst those who had been for 4 years had a mean debt of just \$3,003 (Household Savings Survey, 2001). Generally, the statistics indicate

that those who went to study (tertiary education) had more CCD but those that stayed for more than 2 years tended to cut down their debt after that. This may be because anything less than 3 years at University will not get a student a Bachelor Degree, therefore those that at least stay long enough to get a Bachelor degree would generally get better paid jobs, with these enabling them to better control their CCD.

Buzz the people report on marketing of Credit

Buzzthepeople was an internet survey with respondents from a 'representative sample' picked based on demographic characteristics reflecting the greater New Zealand population. These people answered questions on their use of credit cards, bank overdrafts, hire purchase and store credit in the context of New Zealand banks and the legislation that governs their services in 2008. The report found that almost half of respondents (48%) did not always pay their interest charges on their credit card, with 14% admitting to never paying off the interest charges (2008). The reasons given for the respondent's inability to pay off the interest ranged from 'increases in the cost of living', to 'using the card during times of underemployment', and also due to 'bad budgeting'. Therefore, the survey results would indicate that for the respondents who incur interest charges, they often cannot avoid these charges as they are not necessarily spending the credit on luxury items, instead using it for necessities that will always be included in the weekly budget. Thus, this group of individuals are likely to continue to pay interest on the credit cards unless their disposable income increases.

Figure 24: Which statement most closely matches your situation?

	Percentage (%)
I generally pay off my credit card(s) on time so I don't incur interest charges.	52.0
I sometimes pay off my credit card in full but sometimes incur interest charges.	16.7
I often don't pay off my credit card(s) in full and often incur the interest charges	17.2
I never pay off my cards and always have interest charges.	14.1

*Buzzthepeople, (2008)

Another important finding of the report was that respondents recorded that financial creditors often encouraged debtors to extend their loans. Over half of respondents (55%), said they had been offered an extension on their credit without asking for it in

the last year (Buzzthepeople, 2008). The report also found that some respondents were getting their credit limits increased on their credit cards without asking for them, where their credit limit would be altered from \$1,500 to \$8,000 (Buzzthepeople, 2008). This phenomenon highlights some of the more devious tactics that financial institutions will employ to lure people into spending money they don't have and ultimately paying more interest on their balance. Furthermore, almost a third of respondents of the survey (32.8%), had found difficulty in trying to cancel their credit card or pay off their hire purchase early (Buzzthepeople, 2008). Once again, those working for the finance companies are encouraged to give incentives for customers to keep their credit cards often explaining to customers that it is much more convenient to keep the credit card even if they do not use it, to leave the temptation open to them. Generally, it was a lot easier for people to get credit than it was to cancel it. The report also found that almost half of respondents felt that there should be changes to the laws around credit that make it harder to access credit (especially for young people), that also make it illegal to give unsolicited credit. Currently this is not the case in New Zealand and could be partially responsible for the growing amount of unsecured debt in New Zealand. If there were greater legal restrictions to financial institutions handing out credit then this could potentially make it easier for people to get out of debt, and make it harder to get into it in the first place.

8. Conclusions

The constant rise of unsecured debt in New Zealand has become an increasingly large problem for those in the middle to lower incomes in New Zealand. The literature review has illustrated how a number of macroeconomic and consumer attitude changes brought about substantially by the liberalisation of the financial sectors of New Zealand (similar to that of other OECD countries) during the 1980's and 90's has led to greater access and use of non-mortgage credit. This market liberalisation as well as technological advances increasing accessibility to credit have encouraged and led to a more debt ridden society as a number of important quantitative indicators suggest. New Zealand's position in the OECD rankings as having the lowest household savings rate (-6.4 in 2004) is one of the clearest indicators of why there has been such a large increase in all forms of unsecured debt, and a subsequent drop in savings, since our consumption exceeds our disposable income. The growth in the availability and use of credit cards, overdrafts and personal loans have all contributed to this phenomenon which leaves New Zealanders with total credit card debt at \$5 billion, and bank liabilities at \$6.7 Billion as of 2001 (Stats NZ, 2001; RBNZ, 2008). With the current increase in inflation up to 4% in 2008 due to the historic increase in oil and food prices that is not being matched by income increases the signs look ominous in terms of New Zealanders sinking further into debt.

One of the major problems that have been observed in this report is a growing pool of people in the lower-socioeconomic groups who are forced to turn to sub-prime lenders for personal finance loans at high interest rates. This has highlighted the effect that credit cards have had for those both able to afford them and those who cannot. The report has shown that although credit cards can encourage people into conspicuous consumption, for others the rejection of getting a credit card only leads to less favourable forms of unsecured debt, which only leads to more serious financial problems.

Using the U.S as an OECD benchmark of a highly indebted society where credit cards have become ingrained into their consumer culture, we can see what New Zealand credit card debt epidemic might look like in the future. This would include a higher proportion of New Zealanders with credit cards, with larger outstanding balances and therefore more of their income contributing towards interest on debt repayments. Some

statistics such as New Zealand's household savings rate of -6.7% in 2006 compared to the U.S's 1.7% indicate that this transformation is not likely to take very long unless these negative savings trends are reversed in the future.

The report has also documented the growth of consumerism and the normalisation of debt as a means of obtaining the types of material possessions that are associated with the expected affluence in New Zealand or any other OECD country. Dusenberry's theory that posits that industrialised countries encourage people to attain a standard of living higher than their current income allows, suggests why people in New Zealand households have been so prone to spending beyond their means, by referring to the societal influences that encourage conspicuous consumption. Government policy changes such as the student loan scheme have also engendered a greater acceptance of debt as a modern financial necessity by encouraging students to borrow to pay for tuition fees and living costs, arguably leading to less apprehension in accessing bank overdrafts and credit cards. These two relatively cost effective forms of unsecured debt are heavily marketed to students who are taking on greater and greater debts to finance their studies which go well beyond their tuition fees. This trend also has the potential to create a debt epidemic in the future for those who do not obtain the financial benefits that they envisaged their tertiary education leading them to. Although, similar developments have occurred in other OECD countries, in New Zealand where income levels are relatively modest and non housing asset ownership is very low, the consequences of a debt epidemic could be much more pronounced whereby, more New Zealanders could be on the cusp of the poverty line due to increasing debt repayment obligations.

Government policies have also allowed greater freedom for financial firms and banks which along with technological advances, have lead to New Zealanders and other OECD countries no longer being limited to spending based on their existing available funds, and can now purchase goods and services differing the full payment to a later date through a number of credit options. These options can be ordered in terms of their desirability and affordability as I have indicated through the 'hierarchy of debt' used in the literature review. This hierarchy clearly shows bank overdrafts and credit cards are generally less oppressive than credit provided by fringe personal loan banks, and store credit cards which are unfortunately often the only option for those in the lower socio-economic sectors of society. Using the market segment model listed in figure 2 of the

literature review we can see that the credit market can be divided into four segments in which most of the financially excluded fit into the market D, which are those with poor credit ratings and therefore poor access to reasonable credit. So as one would expect the credit market is extremely discriminatory and has made it very expensive for those who need access to reasonable credit the most. One of the ironic aspects of the fringe lending market in New Zealand is that despite the high interest, high fee personal loans that although the lender risk is meant to be very high most debtors will successfully pay back their loans, whilst those with access to credit cards that are considerably more affordable often do not pay back their debt as the growing CCD in NZ would suggest.

Although some of the worst effects of over indebtedness are occurring in the lower socioeconomic sectors of New Zealand society, as the Household Savings Survey (2001) data indicates there is also a large amount of debt being acquired by those in the middle classes. For example, couples earning a combined income of between \$50,000 and \$150,000 had the highest debt to asset ratio of all income groups, whilst individuals earning between \$50,000 and \$100,000 had the second highest ratio of the individual respondents (HSS, 2001). In terms of age, the debt ratios and net worth give a clear indication that as the life cycle- permanent income model would predict young people in the 18-24 years age bracket are far more inclined to be in debt than any other age group (HSS, 2001). As I have discussed earlier in this report this phenomenon is heavily due to the introduction of the student loan scheme in New Zealand, that has begun to normalise debt for young people who have chosen to participate in tertiary education, who consequently are often encouraged into further bank liabilities, and credit cards to fund their living costs during their tertiary studies.

With the current economic downturn hitting the pockets of New Zealanders with rising prices in food and petrol which puts inflationary pressure on most other products through increased transport costs, the temptation to delve into debt is as high as it is ever been in the past. As the Buzzthepeople report has revealed a number of New Zealanders are already using credit cards and personal loans etc. to pay for necessities such as food, petrol and rent, so as these goods increase in price so too will peoples propensity to sink further into debt, with the possibility of more people using credit to pay for the necessities of life.

In terms of recommendations on relevant policy to alleviate this problem, it would be advisable to introduce amendments to the 2003 Consumer Finance and Credit Contracts Act, to make it easier for people to increase the speed at which they pay off their debt, making sure that monthly minimum payments (MMP) are designed to pay off a person's CCD within a 'reasonable time frame'. Furthermore, it should be mandatory for the customer to know how long it will take them to pay off their balance with their MMP, when they sign up to a credit card so they do not end up paying more interest than they are aware of. In terms of cancelling credit it should also be made easier for customers to cancel their credit cards or loans if they are able to erase the debt, as a number of respondents from the Buzzthepeople survey reported being pressured into keeping their debts and even in extreme cases given financial incentives to do so (2008). These practices are unacceptable and it should be just as easy to cancel credit as it is to access it.

Overall, New Zealand is a highly debt ridden society even by OECD standards as data from the HSS, SoFIE, RBNZ, and a number of other articles and reports have illustrated. The level of this debt has grown markedly over the last decade and does not show any signs of decreasing, as New Zealanders seem to become more comfortable with debt in a number of different forms. The SoFIE data showed that 6.5% of New Zealanders had negative net worth in 2003, and with one of the lowest household savings rates this figure is also likely to increase. As debt becomes a more prominent problem in NZ it would seem that there may need to be a campaign to inform New Zealanders about debt so they learn how to avoid debt if possible, and what 'good credit' is available to them if they need it. As debt is a necessity to some of the poorest people, it is important that they gain access to the most reasonable credit possible to minimise the risk that a number of households take when accessing fringe lenders, who represent some of the worst aspects of the debt problem in New Zealand.

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