



# Credit Scarred

Americans have become skittish about borrowing, even to finance growth—and think Washington should be, too. **By Ronald Brownstein**



**Big problem:** Mortgages are responsible for the most personal debt.

**T**he struggle of A.J. Edge to sell the house he left behind neatly encapsulates the increasingly uneasy relationship Americans have with financial debt.

Edge, a business-administration student, and his partner, a veterinarian, moved about a year ago from Lewisville, N.C., to Des Moines, Iowa. In North Carolina, the couple owned a rental property and the

home that they lived in. Like nearly all homebuyers, the two men took out mortgages to acquire each property, and they saw that debt less as a burden than as a springboard to a better life. "If you want a house, if you want a car, if you want anything in the world, you have to get some sort of debt with that," Edge says. "Everyone has a dream house, and the only way you can get it, unless you're a millionaire, is ... to go into some debt."

The couple, to their surprise, sold the rent-

al property without much trouble when they moved to Iowa, where they got married and adopted two children. But even though they lowered the price, their North Carolina residence remains unsold after 18 months on the market. Now, maintaining that mortgage is growing so difficult that they are reluctantly thinking about letting it lapse into foreclosure. "There's just no other option," Edge says.

The experience has made Edge question the proper role of borrowing—in his own life



**Slowdown:** Reduced spending means reduced demand.

and that of the nation. He sees the cost to the economy of banks reluctant to lend and of families tightening their belts to spend less and reduce their debts. But he is a cat on a hot stove when it comes to accepting more financial obligations himself. “I think people need to stop being so scared,” Edge says. “On the other hand, I never want to buy a house again.”

Edge’s deeply conflicted *cri de coeur* captures the current rippling through the latest Allstate/*National Journal* Heartland Monitor poll. Edge is like many Americans (especially those in the middle class and above) who believe that debt, on balance, has been a positive force in their own lives. But he is also

part of a commanding majority who believe that excessive borrowing played a central role in the grueling economic downturn—and that a commitment by all segments of society, from government to individuals, to pay down their debts is an indispensable component of recovery.

Many economists worry that such simultaneous “deleveraging” would prolong the downturn by reducing purchasing power and further diminishing demand for goods and services of all sorts. The survey and follow-up interviews show that most Americans hear those arguments, recognize that there is at least some validity to them—and conclude that families

and the federal government alike should focus on paying down their debts anyway. “I understand the ripple effect,” says Marlin Baker, a poll respondent who does seasonal work installing sprinklers in Muskegon, Mich. “If nobody’s buying milk, then farmers aren’t running machines and the mechanics don’t have jobs fixing machines. But I guess there’s just a point where we all have to [pay down debts] for a couple of years till we get it lined up, and at that point we can go back to living again.”

**PULLING BACK**

The latest Allstate/*National Journal* Heartland Monitor poll is the tenth in a series exploring the ways that Americans are navigating the changing economy. The poll, conducted by Ed Reilly, Brent McGoldrick, and Jeremy Ruch of FTI Strategic Communications, a communications-strategy consulting firm, surveyed 800 adults by landline telephone and 200 more by cell phone from Sept. 28 through Oct. 2. It has a margin of error of plus or minus 3.1 percentage points.

This survey focused on Americans’ perspectives toward public and private debt. It found that experiences with debt diverged substantially along lines of race, education, and income, but that attitudes toward debt converged.

Overall, the poll found that, for most Americans, debt remains more of a chronic than an acute concern. Asked to identify their biggest financial worry, just 8 percent identified carrying too much debt, which ranked it behind the cost of living; an inability to save enough for retirement; earning too little; finding or keeping a job; and declining home values. (An equal 8 percent worried about poorly performing investments.) About 25 percent of those polled said that their debt load had increased in the past few years—a substantial but not overwhelming number. Even more (31 percent) said they had reduced their debts, and 41 percent said that their debt levels hadn’t changed much.

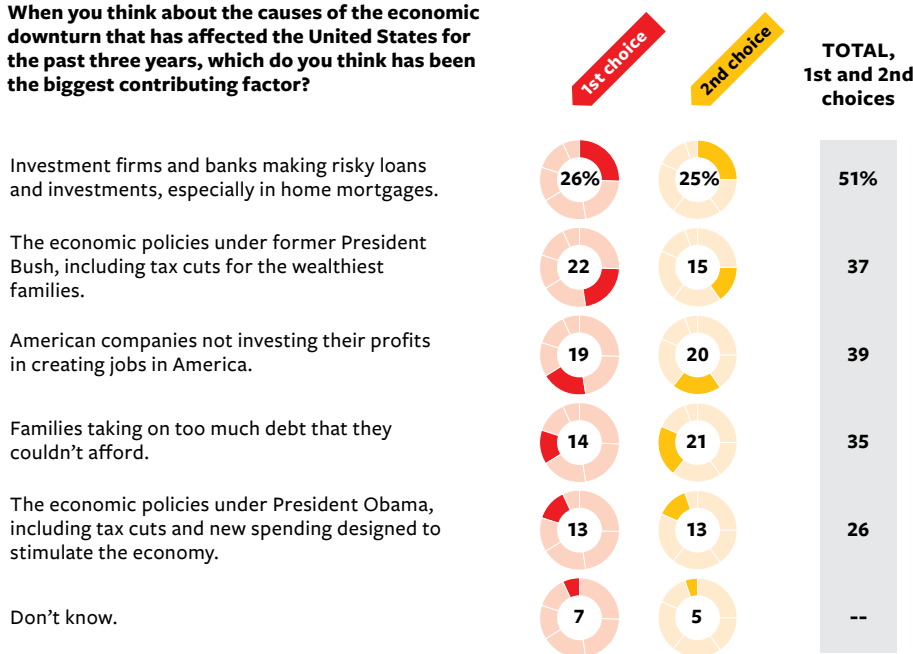
Just 11 percent of those polled said they considered their current level of debt “dangerous” and harbored “serious concerns about being able to pay it off.” Slightly more than two-fifths said they considered their debts “manageable” and held “little concern about being able to pay it off.” The largest group hedged: 47 percent said that their debts were “somewhat worrisome, but as long as nothing bad happens, I should be able to pay it off.”

These numbers varied significantly across class and demographic lines. Only about one in six of those earning more than \$100,000 annually have added debt during the downturn; but approximately one in three of those earning under \$30,000 have done so. Minorities

**Who’s to Blame?**

Americans say that Wall Street is the single biggest factor behind the economic downturn, ahead of presidential policies, globalization, or irresponsible consumer borrowing.

**When you think about the causes of the economic downturn that has affected the United States for the past three years, which do you think has been the biggest contributing factor?**



Source: Allstate/*National Journal* Heartland Monitor poll, Sept. 28-Oct. 2, 2011. N = 1,000; margin of error is ± 3.1 pts.

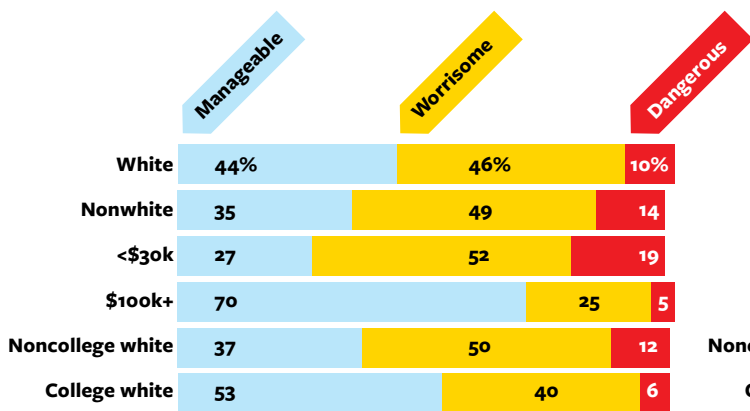
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## Experience and Attitude

Americans' experience with debt varies a lot, but their ideas about it are similar.

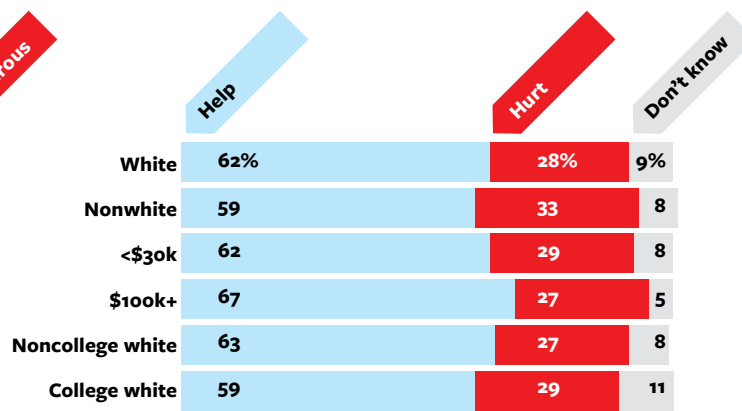
### Personal experience with debt

Which of the following best describes your feelings on the amount and type of debt you currently hold?



### Attitude toward debt

If government and individuals all tried to reduce their debt, how would that affect the economy?



Source: Allstate/National Journal Heartland Monitor poll

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were more likely than whites to say they have added debt; among whites, those without a college degree were more likely than those with advanced education to have taken on debt.

Across the same divides, the gaps were even larger on the question of whether people felt threatened by their current debt load. Lower-income families, noncollege whites, and minorities were all much less likely to say that they could manage their debts with little concern.

Taylor Lee, an African-American from Atlanta who lost his job as a graphic artist, is among those feeling more pinched. His family now relies predominantly on his wife's income. "With the grace of God, we've been managing to pay our mortgage," he says. "This month, we'll be a little late because other bills are coming in. You've got to let one thing go to pay something else off. This is the United States: Who'd have thought our country would go out like this?"

Credit cards ranked as the most common form of debt for those polled (with 42 percent reporting it), followed by mortgages (38 percent), car loans (32 percent), unpaid medical expenses (22 percent), and student loans (21 percent). Mortgages represented the largest volume of debt owed by far for most respondents (50 percent), followed distantly by student loans (14 percent), then car loans and unpaid medical expenses (9 percent each). On these questions, class and racial divides were vivid: Mortgages overwhelmingly ranked as the biggest source of debt for whites (es-

pecially those with college educations) and upper-income families, while student loans and unpaid medical expenses were relatively more prominent for minorities and lower-income families.

The same racial and class divides resurfaced on a question that asked how people dealt with their debts. About half of all the major groups reported that they had lent money to a friend or family member to help them pay their bills. But minorities, lower-income families, and blue-collar whites were much more likely than the affluent and college-educated whites to say they had borrowed money to pay their bills. The same groups were more likely to say they had missed more than one consecutive payment on a loan or credit card, incurred debts they didn't understand, or taken out a payday loan. Minorities and low-income families were also more likely to say they had used one credit card to pay off another and had argued with family members about debt. (See table, p. 46.)

Once again, lower-income families, minorities, and noncollege whites were also more likely than the affluent and college-educated whites to say that the downturn had required them to take on more debt to meet their daily expenses. But even so, only about one in eight respondents overall said they had borrowed more to get by. Another 38 percent said that the downturn hadn't much changed the way they allocate their income between debt and spending.

The largest group (47 percent) said that the downturn had instead encouraged them "to pay off as much debt as possible or not take on any new debt, even if that meant cutting back

on spending." That question produced striking consistency: A plurality of respondents across the major racial, income, and educational lines all said that the downturn had encouraged them to reduce, not add, debt.

### LESSONS LEARNED

That convergence points back toward a larger conclusion from the survey. Americans' actual encounters with debt have varied enormously depending on their economic situation, but the lessons they have taken from the downturn about spending and borrowing overlap to a far greater extent—particularly when the discussion moves from broad principles to daily choices.

To some extent, the class and racial divides that shape Americans' exposure to debt resurface in broader philosophical questions about debt's role in helping people achieve their goals. Asked to summarize its impact on their own lives, 43 percent said that going into debt had expanded their opportunities by allowing them "to make purchases you couldn't afford from your income at the time," while 42 percent said it had reduced their opportunities by "burdening" them "with bills that you couldn't really afford to pay." Here the class divide is sharp: A majority of those earning at least \$50,000 annually believed that debt has helped them, while fewer than four in 10 of those earning less agreed.

Eliza Cothran of Smithfield, Utah, is typical of those who said they believed that debt has enlarged their opportunities: Borrowing, she said, has allowed her and husband to open a residential treatment center for young peo-

## THE PRESIDENT

## Disapproval of Obama's Agenda Has Begun to Harden Among Voters

BY RONALD BROWNSTEIN

Like an early-autumn frost, a blast of pessimism about the country's direction has snapped a slow but steady warming trend toward President Obama in the latest Allstate/National Journal Heartland Monitor survey.

Just 44 percent of those surveyed said they approved of Obama's performance as president—his lowest rating in the 10 Heartland Monitor polls conducted since April 2009. Likewise, the share of adults disapproving of his performance also reached a high at 50 percent. Those results reversed modest but consistent gains for Obama since his previous low point in the survey in August 2010. In the most recent survey, conducted last May in the aftermath of the Osama bin Laden raid, Obama's approval rating had edged up to 51 percent, with only 41 percent disapproving.

Equally ominous for the president: 70 percent of those polled in the new survey said that the country was on the wrong track. That's a sharp increase just since

the most recent Heartland Monitor in May—and by far the highest level of dissatisfaction over the country's direction recorded in any of the 10 polls. (The previous high was 62 percent in August 2010, just before the GOP landslide in the midterm elections that year.) Only one-fifth believed the country was moving in the right direction.

Most political scientists and pollsters agree that, especially in presidential races involving an incumbent, those bottom-line measures—the approval rating and the right-track/wrong-track assessment—are the most powerful predictors of the vote. Obama still has time to regain lost ground, but on both fronts, his position today more resembles the profile of incumbents who were defeated than those who won reelection.

Increasing anxiety about the future appears to be hurting Obama more than growing pain in the present. The share of adults who said they have trouble making ends meet—22 percent—was unchanged from previous polls in 2009 and 2010. But in the new poll, fully 46 percent said they expected the economy

to deteriorate over the next year, a big jump from the 32 percent who took that gloomy view last May. Fifty percent still expected the economy to improve, but that was a notable drop from the 61 percent last May who saw sun peeking through the clouds.

Other measures in the sur-

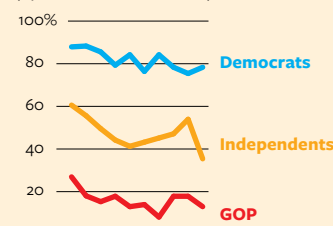
vey showed more stability—and in some cases strength—for Obama. The best news in the poll for the president is that adults still preferred him over congressional Republicans by 40 percent to 33 percent when asked whom they trusted to solve the nation's economic problems. Still, even on that question, independents split almost in half, and whites preferred the GOP, just as they have in every Heartland Monitor poll since January 2010.

On the broadest question about Obama's agenda, the president maintains a thin majority of hope: The share that said the country was already "significantly better off" because of his agenda (11 percent) or at least was "beginning to move in the right direction" because of his policies (42 percent) still exceeded 50 percent. But that collective 53 percent represented the smallest combined positive response that Obama has received in the seven times the poll has asked this question; and the 41 percent who said that the country was "significantly worse off" because of his policies tied the previous high from August 2010. Among independents, the combined

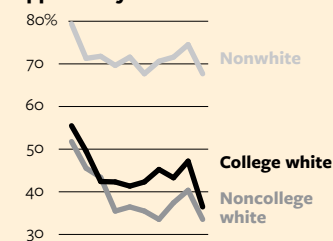
### Obama's Ratings

#### Approval by party

(April 2009-October 2011)



#### Approval by education and race



Source: Allstate/National Journal Heartland Monitor poll

ple. "If we weren't able to acquire this debt, walk into a bank, and get a loan, we wouldn't have an opportunity for this business," she says. "We were given an opportunity to go into debt to make more money."

Yet, while feelings about debt's effect on their own lives were mixed, poll respondents were much more unified in doubting its value for society overall. Just 39 percent agreed that "personal debt provides a path to achieving the American Dream by making it possible for people to borrow against their future earnings," while a solid 56 percent majority said that "personal debt creates an obstacle to achieving the American Dream by encouraging people to spend beyond their means." Baker, the sprinkler installer from Michigan, is firmly in the latter camp. "A lot of people try to keep up with their neighbors, cover wants

before their needs," he laments. "Even in debt as I am, I could go to the store right now and pick up a flat-screen [TV] and a Blu-Ray and a PlayStation." The affluent were much less likely to see debt as an obstacle, but otherwise the belief that it created more problems than benefits for society was widespread.

That conviction is evident in another stunning result: Three-fourths of those polled said they believed they personally would be better off if they carried "no debt by paying off all your loans right now." Just one-fourth accepted the idea that debt made them better off by allowing them "in effect [to] borrow from your future income." On that ringing declaration, the views of whites and minorities, the young and the old, those with and without college degrees, and even the wealthy and the poor varied little. Jared Quincy, a law-

yer in Herriman, Utah, eloquently expressed the aspiration inherent in that finding. "I think too many people confuse the American Dream with 'I can have whatever I want' and believe debt is a pathway to having whatever you want," he says. "I would submit that the American Dream is self-determination, and enslaving yourself to creditors is no way to self-determination."

Most Americans may not be able to achieve that ideal (83 percent reported holding at least one form of debt), but many are looking to steer their lives in that direction. When asked whether the economic downturn had required them "to cut back on spending on things such as clothing, vacations, and dinners out in order to pay down your debt or not acquire any new debt," more than three-fifths said yes, while only about one-third said no.



positive responses in the new poll fell to 48 percent, the first time it has dipped below 50 percent. It also was the first time that a majority of whites (51 percent) said that the country was worse off because of Obama's agenda.

The president continues to face negative judgments on other important measures. In a slight deterioration since last May, 51 percent of those polled said they were now inclined to vote against him in 2012, while 41 percent said they were inclined to support him. Just 31 percent of those polled said that his agenda has increased "opportunity for people like you to get ahead," while 37 percent said it has decreased their opportunities and 26 percent said it has had no effect. (Whites are now twice as likely to say that Obama's agenda will

decrease, rather than increase, their opportunities.)

Similarly, 43 percent said that Obama's policies helped "avoid an even worse financial crisis and are laying the foundation for our eventual economic recovery," while a 48 percent plurality said that his agenda ran up "a record federal deficit while failing to end the recession."

The depth of the anxiety over the country's direction should be as troubling for Obama as its breadth. At least 69 percent of adults at every income level felt the country was on the wrong track, as did at least 69 percent of adults at every age range above 30. (Younger people were hardly bursting with optimism: 58 percent of them said that the country was on the wrong track, about double the share who thought it

was moving in the right direction.) Whites are registering historic levels of gloom: Nearly four-fifths of them believed that the nation was on the wrong track. But even about three-fifths of Hispanics agreed. Only a majority of African-Americans expressed positive views.

The assessments of Obama's job performance tell a story of similarly panoramic displeasure. Just 35 percent of independents said they approved, by far his worst showing in the Heartland Monitor poll. Among whites, his ratings cratered to 34 percent, also a new low. Even among white women with a college education—consistently Obama's strongest group in the white electorate—his ratings tumbled below 40 percent. Among adults under 30 and Hispanics, two other cornerstones of his 2008 coalition, Obama managed no more than about 50 percent approval.

Nearly four in 10 adults overall (and almost half of whites) said they *strongly* disapproved of his performance. Equal numbers of each group said they *definitely* intend to vote against him in 2012. Both of those numbers track closely with the 41 percent overall (and, again, half of whites) who said that his agenda has left the country worse off.

Besieged from so many direc-

tions, the White House might take slight encouragement from the fact that the eroding faith in Obama's performance has not been matched by an equal ideological embrace of conservative principles. Asked about the proper role of government in society, the share that endorsed the Reagan-like view that "in the current economic environment, government is not the solution to our problems; government is the problem" rose, but only slightly, to 40 percent. (There's that number again.)

Only 27 percent, unchanged since last spring, endorsed the traditional Democratic view that "in the current economic environment, the government must play an active role in regulating the marketplace."

The remaining 29 percent (a slight dip from 34 percent last spring) took the equivocal position that they were open to government intervening in the market "to ensure it benefits people like me" but remained uncertain that it could do so effectively. Those conflicted voters—like those who haven't written off Obama's agenda despite concluding it hasn't yet produced benefits—represent the last line of defense for a president confronting a hardening core, and widening circle, of discontent.

Families earning at least \$100,000 annually were somewhat exempt from that consensus (although 42 percent of them say they have cut back), but it encompassed virtually everyone else; even a majority of families earning between \$75,000 and \$100,000 say they have retrenched. "Our personal experience with debt is that it's a millstone around the neck," says Dan Olson, a business analyst for a health care firm who lives in Minneapolis. "We're not exactly excited about the debt we've got, and we've been having conversations about spending less, spending less."

There was a somewhat greater, but still not profound, difference across class and racial lines when respondents were asked how the downturn had affected their investment decisions. Nearly two in five said that the slowdown had required them to cut back "on

saving and investing" for retirement or their children's education; an almost equal percentage said that it hadn't changed their investing decisions; and the remaining fifth said that the slowdown had instead encouraged them to "save and invest more for the future." Not surprisingly, upper-income families were much less likely than their lower-income counterparts to say they had cut back on investing. But, just as on the questions about spending, the differences between the attitudes of whites and minorities or between blue- and white-collar whites were relatively modest.

Even those differences virtually evaporated on the broadest question about how the United States should deal with its public and private debts moving forward. The poll asked if the economy would be helped or harmed if government and individuals all tried to simul-

taneously pay down their loans and reduce spending—the simultaneous deleveraging that divides economists. Just 29 percent worried "this would hurt the economy" by reducing consumption (the view shared by most liberal and even many mainstream economists). Meanwhile, a resounding 61 percent said that it would "help the economy as it would create more savings that could be invested to create or expand businesses" (the view advanced by most conservative economists). That consensus held, virtually unshaken, across lines of race, education, and income.

The consistent preference expressed in the poll for reducing debt—both individually and collectively—suggests that, like the Depression, the Great Recession could have a lasting impact on how today's Americans borrow and spend throughout their lives. At



the least, it's clear that the fierce downturn has triggered a profound moralistic streak in millions of Americans that equates debt with profligacy, and profligacy with an erosion of the discipline required for economic success, both individually and as a nation. Put simply, for many Americans, debt has become a four-letter word.

**GOVERNMENT'S ROLE**

That's true when they look to Washington, too. The survey detected ambivalence about whether Washington should prioritize job creation or deficit reduction, but it found mostly skepticism that more government spending—and debt—can really invigorate the economy.

The poll saw substantial consensus on the cause of the federal debt. Nearly half of those polled identified the cost of the wars in Afghanistan and Iraq as the biggest factor in the growing federal debt. Almost identical percentages—about one-sixth in each case—fingered the economic agendas of Presidents Obama and George W. Bush. About one in nine picked the economic slowdown itself. Only a little over one in 20 identified the growing costs of Medicare and Social Security as the baby boomers retire.

Several questions asked Americans how

Washington should respond to that mounting debt. Three show the same moralistic streak that respondents displayed on personal debt, but a fourth demonstrates the cross-pressures that qualify the seemingly irresistible public demand to blot the red ink.

The results make clear that Obama and Democrats face an uphill climb to sell the argument, made famous by the British economist John Maynard Keynes during the Depression, that when private demand slackens, government must step in to replace it by increasing spending and running deficits. Just 38 percent of respondents agreed that “government spending is critical during an economic downturn ... because government has the unique ability to stimulate the economy through public investment.” A solid 56 percent majority instead agreed that “government spending when the government is already running a deficit is the wrong approach during an economic downturn because it is only a temporary solution that increases long-term debt.”

Even when informed that the federal government in the past has shouldered greater debt levels as a percentage of the gross domestic product, just 30 percent agreed that “the current economic situation merits additional spending ... to stimulate economic growth.”

Fully 65 percent said that government's focus should be “on reducing debt and cutting government spending.”

In reaching these conclusions, the poll suggests, most Americans were analogizing from their own experience. Sixty percent agreed that “the federal government should manage its budget like American families run their household budgets,” limiting the debt they accumulate to high-priority needs like mortgages or student loans; only 36 percent said that the analogy didn't apply because “the government has the unique ability, resources, and responsibility to stimulate economic activity.”

These questions sharply divided Democrats and Republicans, with independents sorting in between but leaning closer toward the GOP in opting for deficit reduction over spending to help the economy. Steven Clare, a Republican from Neenah, Wis., who runs a bulk-food store, succinctly expressed the majority view. “In my household, if I'm doing great, I'll spend more,” he says. “But if things are tighter, I spend less. I'm a little more conscious of my needs versus my wants. I feel like government has no accountability to anyone, and they spend a lot on wants.”

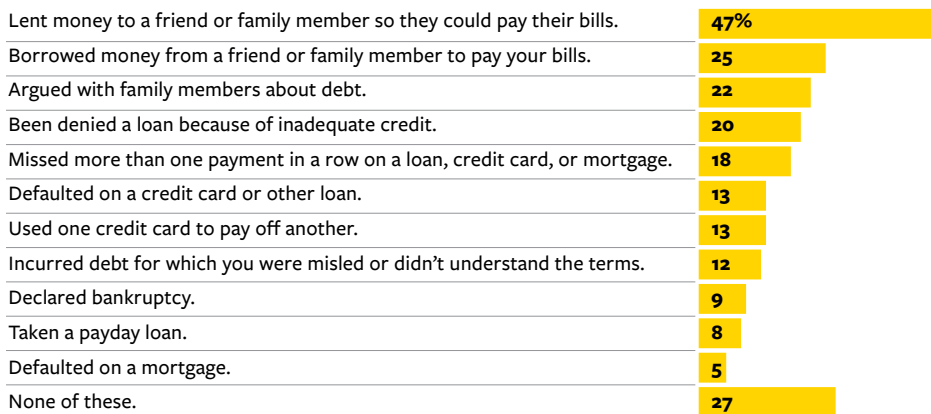
For all the force in this consensus around deficit reduction, one final question illuminates its limits. The poll asked respondents to balance job creation against deficit reduction—and alluded to some of the costs of the latter.

Asked to choose among three options for economic policy, a 40 percent plurality picked a Democratic-leaning alternative under which government would increase “spending on infrastructure, education, scientific research, and programs like unemployment insurance for those out of work even if it means increasing taxes ... so that we stop adding to our national debt.” Another 32 percent picked a Republican-leaning option of reducing taxes, regulation, and spending, “even if it means that the deficit will increase temporarily.” Only 20 percent said that “government should focus on reducing the federal budget deficit” even if “means raising taxes and reducing spending on programs like Medicare and education.”

All of which suggests that although Americans have soured on the idea of trying to combat the slowdown by increasing federal spending, they remain uneasy about a possible deal to reduce the national debt. That may be one reason why just 28 percent are confident that Washington will find ways to reduce the deficit. Americans may be nearly united in preferring more thrift in their own lives, but they remain doubtful that Washington will follow their example—and are divided over exactly how it should. ■

**Personal Debt and Loans**

**Which of the following have you ever done?**



Source: Allstate/National Journal Heartland Monitor poll

Scott Bland contributed