Check and Balance Overspending in Average American Household Consumption

Zihan Zhang

Damien High School, La Verne, California, United States

ZZhang23@damien-hs.edu

Abstract. Overspending is a problem where people tend to over-excessive purchase unnecessary subjects, such as clothing, cars, and technology that does not match any mean of their income. This caused many people to diet, have psychological problems, and have unstable family relationships. However, the problem of overspending comes down to people don't recognize their spending habits. This research presents how credit cards have a major impact on people's habits of overspending and social norms that caused overspending. Lastly, the research shows that financial literacy implementation is a crucial method for preventing overspending and that developing the habit of managing money at a young age is crucial to minimize the effect of overspending. Money management awareness is important in the education system.

Keywords: Overspending, financial literature, spending habit, consumer spending.

1. Introduction

1.1. Background

Americans have long been involved with a culture of overspending, where many Americans have compared their social values to others, this trend has kept up with the Joneses ever since the World War II period. Today's overspending behavior was mostly brought on by our failure to recognize individual affluence and pursuit of the new social media-created reference group. People back in the post-World War II post-war period used their neighbors as a benchmark when comparing themselves to them. However, this type of wealth comparison wasn't a huge issue back then since everyone in the old neighborhood knew each other quite well and earned around the same. It was a positive thing for individuals to compare themselves to their well-known and familiar neighbors since it motivated them to work more and outperform others, which would benefit the nation's economy overall. Today, the major problem of overspending, however, is that consumers do not know their neighbors anymore, other than the holiday destinations, what they do during holidays and the cost of a sofa in the living room. Today, we no longer limit our comparisons to people in our general salary group or even to those who are one step higher on the ladder for the reasons that will become evident. Today, a person is more inclined now to compare themselves to others whose salaries are three, four, or five times higher than their own. That's the major problem today, consumers don't know who we are comparing and why would we spend our money to purchase something. As a result, millions of individuals have as a consequence adopted the national culture of overspending.

1.2. Related research

Sussman and Altered developed an intervention that reduces consumers' propensity to underestimate their total expenditures on exceptional goods and to overspend on each purchase by encouraging consumers to view their expenditures as one-off purchases within a larger budgetary framework. In the author's study, it was determined that people are good at preparing a spending plan and forecasting their regular purchases, but they consistently overestimate and overpay for special purchases (e.g., electronics or a party). It concluded that if people don't consider how similar one purchase is to another, they may overlook financial planning, and it encourages them to spend money on things they would evaluate more cautiously if their budget was evaluated less narrowly, such as one-time or unusual expenses [1]. Mohamad et al. analyzed how demographic factors (such as gender, level, income received, and CGPA) influence their financial literacy and determined the level of financial literacy among UITM Terengganu students. According to the paper, financial literacy is a prerequisite for avoiding and resolving financial issues, which are crucial to living a prosperous, healthy, and happy life. The study concludes that the financial literacy level of students falls within the category of moderately good and that there is no significant correlation between education level and financial literacy [2]. In their research, McCann and Karen focus on the curriculum of the Career and Technology Education Department at Washington Township High School about the NJCCS Financial Literacy standards. The quantitative research evaluated 304 students using a 20-item consumer and personal finance multiple-choice exam. The pre- and post-test results were analyzed to determine if students' financial knowledge and skills improved during the 2008-2009 school year, if students enrolled in a Financial Literacy course outperformed those enrolled in other department courses, and if the current curriculum meets the NJCCS financial literacy benchmarks. In terms of student knowledge, there were no significant differences between the experimental and control groups. Moreover, the data did not reveal a statistically significant difference between the NJCCC benchmark scores. The study suggests collecting additional data through longitudinal research and evaluation of the assessment concerning the current financial literacy curriculum [3].

Bayland and Warren designed a study to evaluate undergraduate students' current financial literacy at a southern New England university to offer suggestions on how such a program could be tailored to the particular requirements of its student body. The economic effects of this research are so significant that the federal government has made financial literacy a priority in its public policy. One population that has been identified as having the greatest need for this critical skill development is college students. The study concluded that colleges and universities needed to implement a program to increase their students' financial literacy. When creating financial literacy mentoring groups, colleges and universities should take into account students' demographic, cultural, and ethnic backgrounds in addition to their financial knowledge and experience [4]. Using the OECD Program for international students assessment on Financial Literacy, Chambers examines primarily the financial knowledge of high school students from around the world. The results of the study indicate that the traditional gender gap exists when examining parental characteristics, whereas there is no gender gap in students' financial knowledge when examining country-level variables. The findings also indicate that parental characteristics contribute to the gender gap in financial literacy [5]. The focus of Ludvigson's research is consumer confidence and the relationship between consumer attitudes and the real economy. Less well understood is a major concern that this research paper aims to address, namely how household attitudes affect the real economy. The research suggests that popular survey measures contain some information on the projected increase in total consumer expenditures. However, the majority of this information is available through other economic and financial indicators, and the independent information provided by consumer confidence forecasts only a small amount of additional variance in future consumer spending [6].

Fornell et al. conducted research indicating that predicting aggregate consumer spending is crucial for marketing planning, whereas conventional economic theory holds that it is impossible to predict changes in aggregate consumer spending. Primarily, the research demonstrates that the delayed change in customer satisfaction has a substantial effect on spending growth. This effect is mitigated by an increase in the debt service ratio of consumers, and using an asymmetric growth model, it represents a significant improvement over the previous specification [7]. Peter and Noel conducted research using de-identified bank account information to demonstrate that spending decreases dramatically when unemployment insurance benefits run out, as expected. The study concluded that spending is highly proportional to the level of unemployment insurance benefits and drops sharply when benefits are exhausted. Job search is also responsive to the level of unemployment insurance benefits, increasing as benefits run out and decreasing afterward [8].

Montoya and Scott used the lenses of the resource depletion theory and the role stress theory to investigate the phenomenon of excessive spending. The authors conduct a survey and a set of in-depth interviews with students in middle school and high school to learn more about the factors that affect the quality of consumer and financial decision-making among adolescents. Lifestyle-based depletion may influence adolescent consumption behaviors, and the results suggest that this is especially true for adolescents of different ethnic backgrounds, for girls, and for those who do not have strong parental ties. The authors offer suggestions for how to improve policy research in the future and how to help policymakers [9]. Ekici et al. looked at two different perspectives on shopping: the belief that shopping enhances one's quality of life, and the belief that shopping takes too much time and energy. The study hypothesized that shopping well-being positively predicts life satisfaction, shopping ill-being negatively predicts life satisfaction, and shopping well-being contributes more to life satisfaction when shopping ill-being is low than when it is high. The study interviewed 1,035 British individuals. The results supported Hypotheses 1 and 3, but not Hypothesis 2. The effects on retailers, macro marketers, and policymakers are discussed [10].

1.3. Objective

This research aims to show the significant trend of excessive spending in the United States, as well as present the problem of excessive spending during the time of Covid and in recent years. It will also present the significant problems that lead to the problem of excessive spending in America, such as the system of credit cards and a lack of financial literacy, and it will list feasible solutions to address the issue of excessive spending in this research. The overall goal of this research is to address the issue of excessive spending.

2. Consumption Statics of American residents

According to Table 1, the United States consumer spending is almost 7 times the size of Japan's consumer spending which is the second largest consumer spending country according to the World Bank. The US consumption is more than China, Japan, Germany, and the UK combined, and the US population only consists of 4.25 percent of the world but consumes more than 4 of the most populated and advanced countries combined.

Table 1. Countries by household final consumption expenditure per capita [12]

Countries	Household expenditure per capita (dollars)	Year
United States	40,405	2020
Hong Kong	38,086	2021
Luxembourg	32,878	2021
Bermuda	31,574	2021
Switzerland	30,825	2021
Singapore	27,664	2021
Norway	26,390	2021
Canada	25,139	2021

The US consumer spending continued to increase and remained robust through March 2022, despite taking a significant hit following the pandemic and nominal year-over-year growth being less than in late 2021. Inflation in the United States rose to nearly 8.5% in March 2022. Nevertheless, US consumers spent 18 percent more in March 2022 than they did in March 2020, and 12 percent more than was anticipated based on the pre-Covid-19 trajectory (see Figure 1).

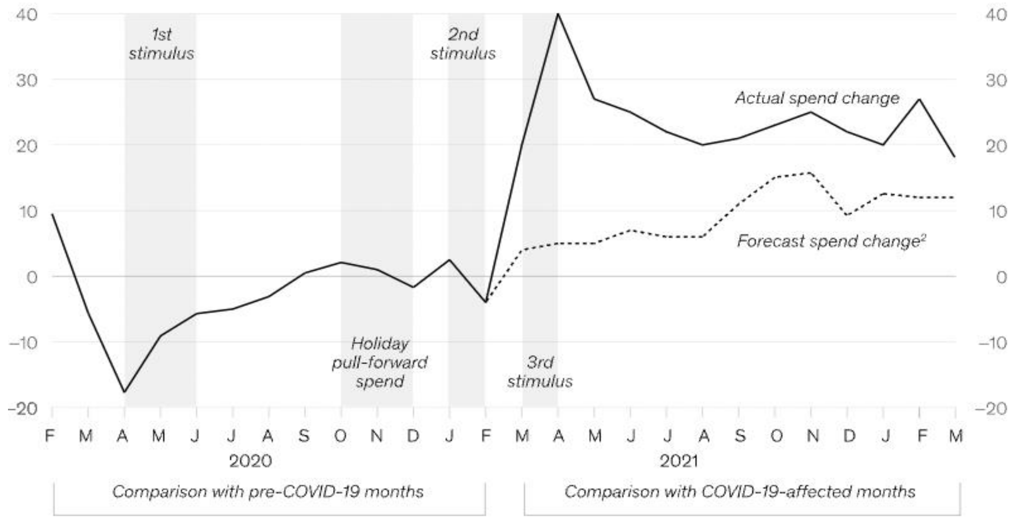

Figure 1. US Credit Card Spend, Year to Year Change [13]

Certain product categories continue to experience an increase in consumer spending. However, inflation inhibits volume growth (Figure 2). In several categories, the majority of February and March 2022 expenditure growth was attributable to an increase in purchases; inflation accounted for only a small portion of the increases. This was especially true for industries, such as athletic equipment, pet supplies, cosmetics, software, and electronics, that experienced significant growth during the outbreak. In other sectors, such as fuel, restaurants, and travel, however, inflation has obscured a decline in spending. As opposed to services or experiences, consumers primarily bought goods. This trend is expected to continue until more people feel safe in crowds and indoor public events.

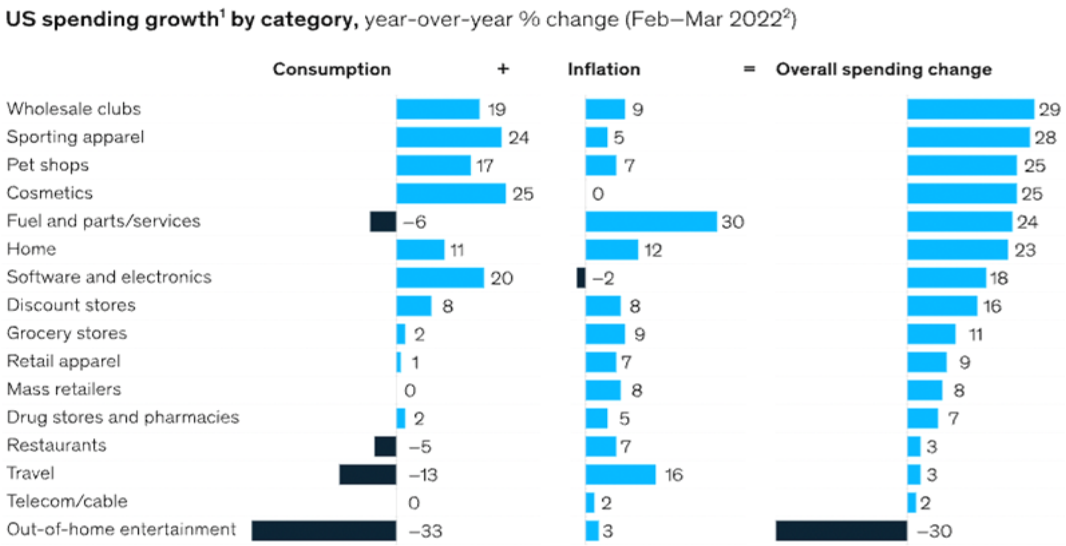

Figure 2. US Spending growth (Fed- Mar 2022) [13]

This year, as consumers return to restaurants, stores, and entertainment venues, pent-up demand and variables such as inflation may increase their likelihood of overspending. Even though over 80% of respondents have a rewards credit card, 41% prefer debit cards for day-to-day transactions. 34 percent of consumers anticipate spending the most on vacations in 2022, followed by home improvement (22 percent) and new technology (15 percent) [14].

The return to practices prevalent before the pandemic may also contribute to the tendency of consumers to overspend. Since 2021, the number of individuals who report overpaying in restaurants and bars has quadrupled from 10% to 30%. In contrast to the previous year, 10% of consumers now indicate that they splurge on entertainment expenses such as movie and concert tickets. Over half (54%) of individuals admitted that shopping was the leading cause of overspending. The percentage of consumers who attribute overspending to in-store purchases increased from 13% in 2021 to 29%

in 2022, with many citing being distracted by other items in the store as the reason for the decline and the ability to obtain items immediately as the primary motivators [15].

3. Characteristic of Overspending

The primary characteristic of overspending is the credit card system which allowed the consumer to borrow and lend money to buy the assets or materials that they can't afford within their income. The Federal Reserve reports that American consumers carried nearly $1.1 trillion in credit card debt as of the third quarter of 2019, up from $888 billion five years prior. The rate of inflation in the United States was nowhere near as high as the increase in wasteful spending. Additionally, in December 2019, outstanding credit card balances reached $466.2 billion, and a recent survey by CompareCards.com found that only 38% of American cardholders are "very confident" in their ability to pay off their monthly balance in full. These numbers point to a concerning pattern of excessive credit card use [16]. Thus, a specific trait of overspending frequently accounts for unrecognized overspending, which in the United States occurs primarily through credit card use because consumers prefer to spend more when using credit cards than cash. In addition to being more likely to purchase an item at a higher price, they are also more likely to make impulsive purchases and leave larger tips. By altering consumers' perceptions, credit card usage may increase the likelihood, rate, and amount of spending, according to numerous studies [17].

Spending beyond one's means is also characterized by a lack of financial literacy and management. Measures of financial literacy included the ability to understand and use interest rates, compound interest, inflation, and risk diversification. The S&P Global FinLit Survey found very low confidence levels. About a third of people around the world understand basic concepts of personal finance. There are substantial variations between countries and populations, and financial illiteracy is widespread. Women, the economically disadvantaged, and those with less formal education are disproportionately represented among those who lack financial literacy. This is true even in countries with sophisticated financial markets and advanced economies. There appear to be some universal traits shared by those who are financially literate. There is a correlation between the use of formal financial services like bank accounts and credit cards and higher levels of financial literacy across all income levels. Rich adults who make use of credit tend to have a higher level of financial literacy than those who do not use credit at all, and the same holds for the poor with a bank account compared to the poor without one. Thus, it appears that there may be two-way communication between financial literacy and financial aid. Individuals' economic well-being may improve as a result of learning how to manage their money and make good use of credit and checking accounts, even if an increase in financial literacy is the primary factor [18]. Consequently, a lack of financial literacy is the most significant barrier to preventing individuals from overspending.

Lastly, households tend to be under social pressure that the social trend forces them to purchase more and overspend. Every day, millions of people are confronted with less egregious comparisons. People in one-earner households attempt to maintain the standard of living of their peers with two paychecks. Parents with limited means struggle to pay for the private education that their peer group has determined to be the best option for their children. The rising rate of product innovation generates additional difficulties. To acquire wider distribution for the variety of new products, manufacturers have turned to lifestyle marketing, targeting both the affluent and the poor with their pitches for luxury goods. Gourmet cereal, premium coffee, and bathroom fittings that make a statement, and the appropriate message, are available to almost all socioeconomic classes. In truth, via the enchantment of plastic, anybody may purchase designer items at the most fashionable store. Or at discount pricing. This is the new consumer culture. And its allure is difficult to resist [19].

4. Discussion

The research focuses on how the social environment affects how young consumers behave when using credit cards, specifically in terms of their propensity to overspend when using this payment method and how this behavior affects the environment and society. It is important to recognize the culture of overspending that American is facing today. This essay emphasizes how peer pressure and the pandemic year may have accelerated our consumption and the use of credit cards, which may have ultimately contributed to social factors having a significant impact on credit card overspending generally. Especially with a lack of education in financial literature, schools in the United States need to implement financial literature and education for high school students. Overspending on credit cards is common among young people because they model their behavior after that of their peers. When more people in one's social circle are perceived to be thinking and behaving irresponsibly with credit cards, that person's tendency to overspend on credit cards increases. In this investigation, descriptive norms played a pivotal role because they were based on a specific context—the use of a credit card—which likely increased the specificity of the norms and, in turn, their predictive power.

Not only did the study's findings support the hypothesis that social norms are more likely to predict credit card overspending than attitudes toward it, but they also show that attitudes have no bearing on this behavior. This cannot be attributed to the attitude measure's lack of validity or specificity. As long as a behavior is controlled voluntarily by the individual, it appears that social norms unique to that behavior may be able to counteract the effects of attitudes toward that behavior. [20].

Therefore, to stop and postponed the up heal culture of overspending, it is important to apply the financial literature to our today's education. When people had stable financial situations later in life, the information they learned in high school personal financial management classes might have a greater impact and help stem the general trend of overspending. [21].

Putting a stop to inefficiently spending money has a wide range of beneficial ramifications. Although we will not be engaging in excessive consumerism, we have concluded that we want our children to have more free time, more harmony in their schedules, a more relaxed pace of life, more time spent with their children, more meaningful work, and daily lives that are in direct alignment with their most deeply held beliefs. We have decided to not participate in excessive consumerism. We are adopting a wide variety of changes to work-life balance to prevent going over budget. These enhancements are aimed at assisting our workers in better aligning the work they do with who they are as individuals. Instead of concentrating just on generating income or according to predetermined standards set by society, a significant number of individuals have changed jobs to pursue activities that are more meaningful to them. One of the most significant advantages of reducing one's spending on things that aren't required is that doing so may assist one in living a life that is more congruent with their fundamental values.

5. Conclusion

This research concludes by analyzing in detail the social norms that contribute to the habit of overspending. Overspending is a condition in which individuals tend to overspend on unnecessary subjects such as clothes, automobiles, and technology, over their income. This resulted in psychological issues and dysfunctional family relationships for several detainees. However, the issue with overspending stems from the fact that individuals do not notice their spending pattern, particularly given the current societal norm and credit card system. In this study, it is suggested that implementing financial literacy is a crucial method for preventing overspending and that developing the habit of managing money at a young age is crucial to minimize the effect of overspending. More financial literacy may result in greater financial inclusion, account management, and credit use may also improve individuals' financial abilities, and developing the habit of managing money at a young age is especially important. Lastly, international overspending and over-debt are increasing. Financial difficulty is associated with health issues and lower well-being, and it may hinder the growth and development of children. Numerous correlates of poverty might be causes of financial stress, however, they are not always the result of being poor. An agreement exists that it is difficult for the majority of people to escape the poverty trap and overspending, and education, particularly financial literature, provides a variety of treatments to assist individuals in escaping this trap.

References

[1] Sussman, A. B., & Alter, A. L.. (2012). Exception Is the Rule: Underestimating and Overspending on Exceptional Expenses | Journal of Consumer Research | Oxford Academic.

[2] Mohamad, Z., Mansor, N., Rashid, K. M., & Khairuddin, N. A.. Student's Financial Literacy: Observing Significant Differences on Demographics Profile.

[3] Mccann, K. L.. (2010). The effect of a high school financial literacy course on student financial knowledge.. (Doctoral dissertation, Wilmington University (Delaware).).

[4] Boyland, J., & Warren, R.. (2013). Assessing the Financial Literacy of Domestic and International College Students.

[5] Chambers, R. G.. (2016). An analysis of the OECD Programme for International Student Assessment on financial literacy.

[6] Ludvigson, Sydney, C. 2004. "Consumer Confidence and Consumer Spending." Journal of Economic Perspectives, 18 (2): 29-50.

[7] Fornell, C., Rust, R. T., & Dekimpe, M. G. (2010). The Effect of Customer Satisfaction on Consumer Spending Growth. Journal of Marketing Research, 47(1), 28–35.

[8] Ganong, Peter, and Pascal Noel. 2019. "Consumer Spending during Unemployment: Positive and Normative Implications." American Economic Review, 109 (7): 2383-2424.

[9] Montoya, D. Y., & Scott, M. L. (2013). The Effect of Lifestyle-Based Depletion on Teen Consumer Behavior. Journal of Public Policy & Marketing, 32(1), 82–96.

[10] Ekici, A., Joseph Sirgy, M., Lee, DJ. et al. The Effects of Shopping Well-Being and Shopping Ill-Being on Consumer Life Satisfaction. Applied Research Quality Life 13, 333–353 (2018).

[11] (2021). Household consumption, in dollars - Country rankings. The Global Economy. https://www.theglobaleconomy.com/rankings/household_consumption_dollars/.

[12] Alldredge, K. (2022). How US consumers are feeling, shopping, and spending—and what it means for companies. The Global Economy. McKinsey&Company.

[13] Toy, K. (2022). TD Survey Reveals a Return to Pre-Pandemic Spending Habits Could Fuel Overspending This Year. TD Stories.

[14] TD Bank Annual Report. (2021). Building Together 2021 Annual Report Retrieved from https://www.td.com/document/PDF/ar2021/ar2021-Complete-Report.pdf.

[15] Sui, L., Sun, L., & Geyfman, V. (2021). An assessment of the effects of mental accounting on overspending behaviour: An empirical study. International Journal of Consumer Studies, 45(2), 221-234.

[16] Feinberg, 1986; Hirschman, 1982; Prelec and Simester, 2001; Soman, 2001.

[17] Klapper, L., Lusardi, A., & Van Oudheusden, P. (2015). Financial literacy around the world. World Bank. Washington DC: World Bank.

[18] Schor, J. B. (1998). The overspent American: Upscaling, downshifting, and the new consumer (p. 272). New York: Basic books.

[19] Sotiropoulos, V., & d'Astous, A. (2013). Attitudinal, self-efficacy, and social norms determinants of young consumers' propensity to overspend on credit cards. Journal of Consumer Policy, 36(2), 179-196.

[20] Mandell, Lewis and Schmid Klein, Linda, The Impact of Financial Literacy Education on Subsequent Financial Behavior (2009). Journal of Financial Counseling and Planning, Vol. 20, No. 1, 2009, Available at SSRN: https://ssrn.com/abstract=2224231.