

## Resolving Koo's Paradox: A Non-Profit Opportunity ?

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Richard C Koo is Chief Economist at the Nomura Research Institute [see box]. 'Koo's Paradox' is that during times of a 'balance sheet recession', saving becomes a vice rather than a virtue. This is because in such a recession, the behavioural driver for companies, banks and individuals becomes debt minimisation rather than profit maximisation until they repair their balance sheets.

With the psychology of the market thrown into reverse, the normal rules and mechanisms of economics do not apply, argues Koo. In these circumstances unless governments borrow and spend until lenders and borrowers have repaired their balance sheets, a recession may slide into a depression. If individuals respond by saving when they could be spending, this only spurs the spiral of economic decline. India aside, Koo says that most large economies are currently experiencing this type of recession.

Plainly, this is all about psychology and motivation. Throughout the 1980s, 1990s and early 2000s, markets and business behaved in an Outer Directed way: seeking bigger, best and better. Greed was good: aggression was acceptable, competitiveness and profit were to be maximised. It got out of control in the markets and in the boardroom and we are living with the consequences.

Now, if Koo is right, and the evidence seems fairly compelling, the business world has flipped into 'Settler', Security-Driven type behaviour: minimising risk, seeking safety and security. But as with the 'Tragedy of the Commons' the net effect of a lot of behaviours that make sense for the individual entity, will be that everyone loses, if that is, you want economic growth to return.

Koo's theory is consistent with observed public values, at least across British individuals\*. For example the survey results from CDSM's 2008 British Values Survey, mentioned in earlier newsletters. Pat Dade at CDSM says "in 2008 we measured the first big increase in the number of Settlers in UK society for thirty years - we think some Outer Directed people have reverted to trying to meet Settler needs (safety, security, identity, belonging) because thanks to recession, they no longer feel these are fully met, and the search for esteem of others, mainly contingent on acquiring material symbols of success, now seems harder".

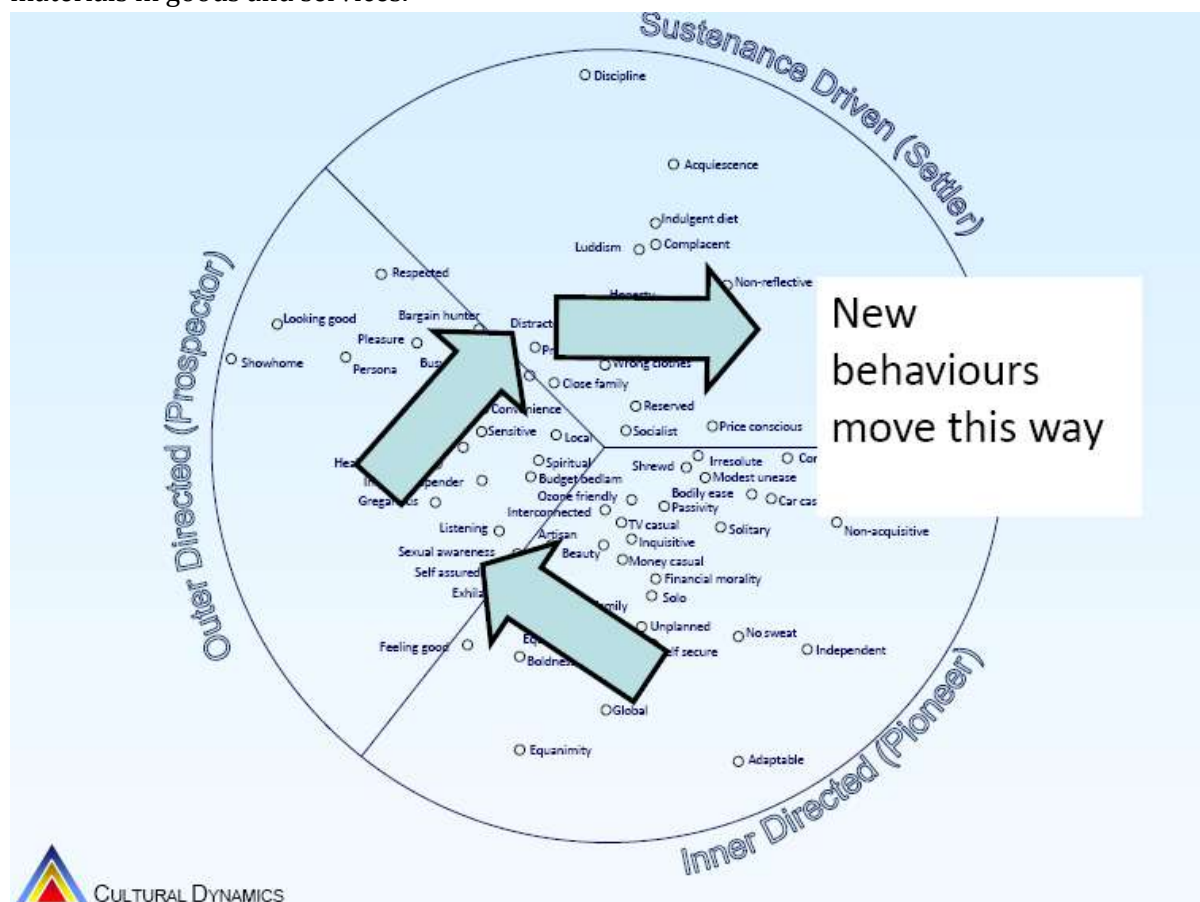
What's this mean for campaign strategies and not-for-profits ? With most campaigns run by charities or 'not for profits' the immediate focus has of course been on income [1]: donations, notifications of legacies and of course investment yields have all been reported down in 2008 and 2009. But resources and jobs aside, there is a bigger issue here, and for some it is potentially a great opportunity.

\*whether this applies to all institutions is a moot point

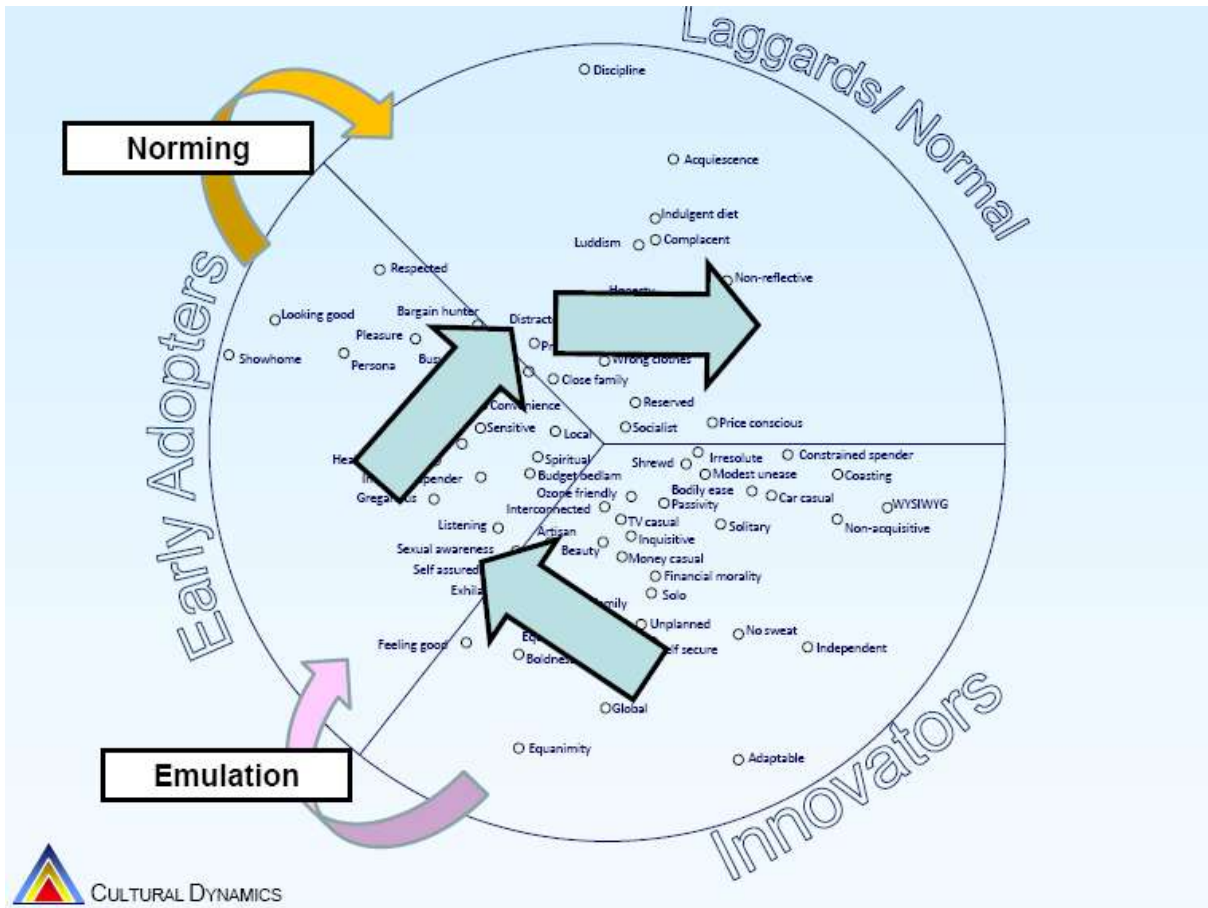
## The Opportunity

It is this: in normal times many behaviours are effectively confined, or very concentrated in one of the three major values groups. The obvious example reported in numerous editions of this newsletter, is that behaviour to support 'global and ethical' causes has been mostly confined to the Inner Directeds (see International Values Planner at [www.campaignstrategy.org](http://www.campaignstrategy.org)). When a behaviour reaches across one values group into another it can, in terms of numbers, be a 'tipping point'. Classically, in the case of new behaviours this starts with Inner Directeds (innovators) and then spreads by emulation into the leading edge of the Outer Directeds (the Now People, early-adopters), and then eventually, spreading from Outer Directeds (Prospectors) to Security Driven (Settlers) by norming.

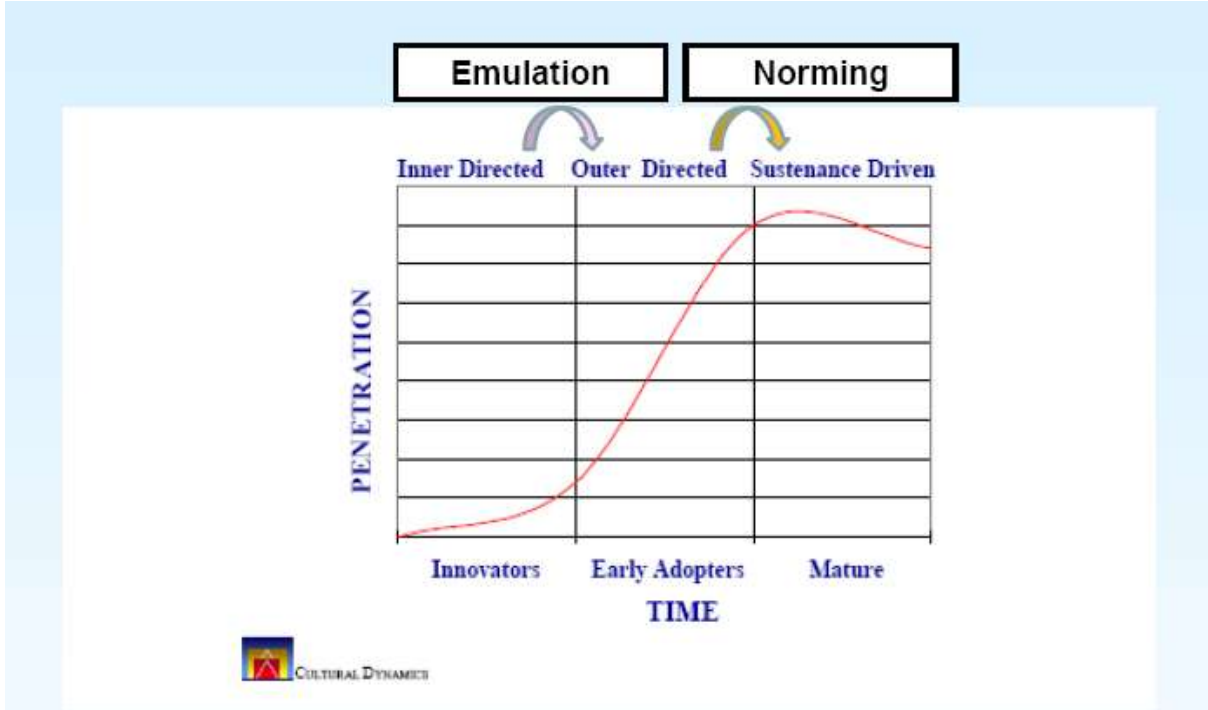
In these abnormal times, could we be on the cusp of just such a tipping point but one where the 'new behaviour' for Outer Directeds is already accepted by Settlers? If you like, a pincer movement. The significance of this would be that the behaviour spreads across all values groups. The behaviour in question is thrift, and the resolution of Koo's paradox could be a path out of recession based not on a return to 'business as usual' in terms of mass material consumption but on re-use and consuming less, at least less in terms of material goods or the materials in goods and services.



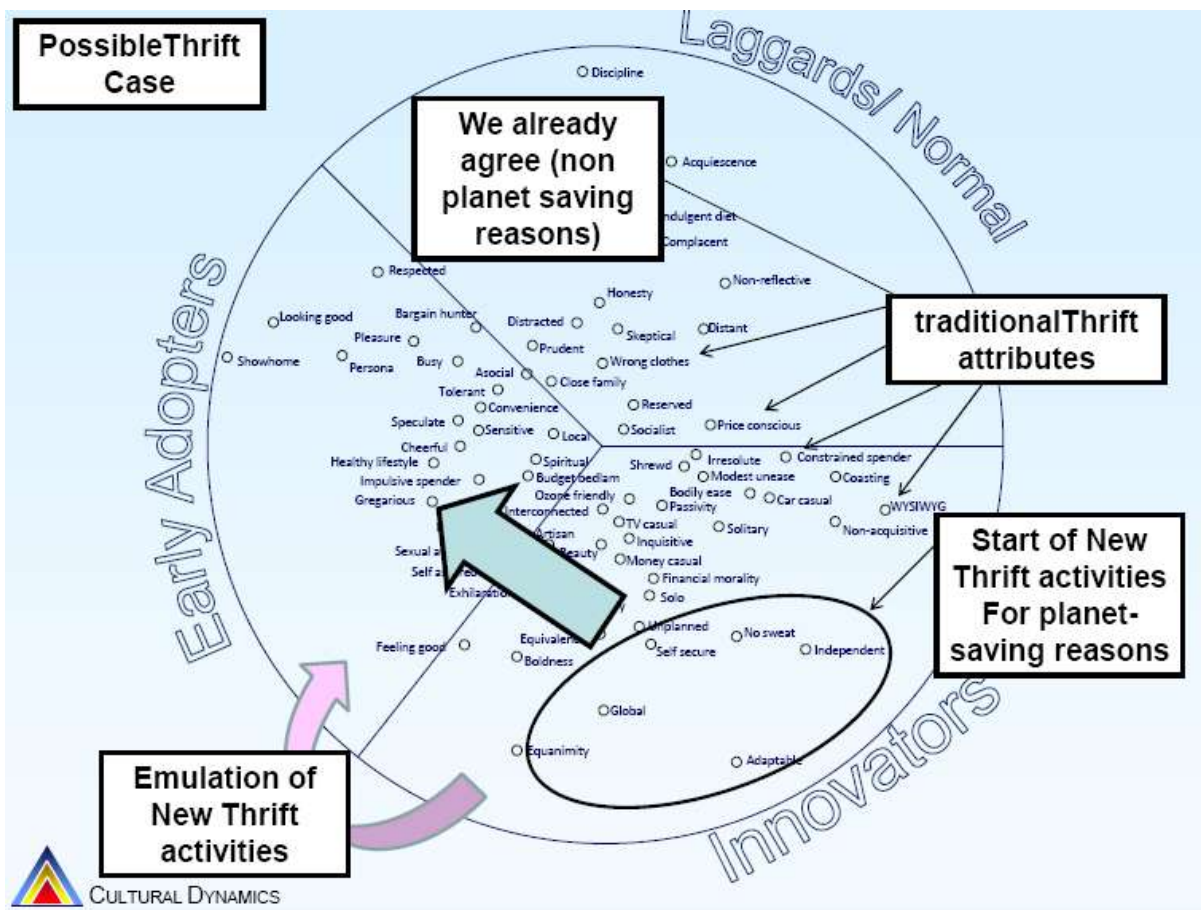
Above: the classic (normal) movement of new behaviours around the Values Map (for an explanation of Values Modes see *Using Values Modes* at [www.campaignstrategy.org](http://www.campaignstrategy.org))



Above: How new behaviours create tipping points when they leap or seep across values boundaries



Above: The behaviours moving across values groups in terms of innovators, early adopters and laggards (conventional market penetration)



Above: How existing (Settler) values and Pioneer (planet saving thrift leading to New Thrift activities) and Prospector (emulation of New Thrift) values could lead to all groups changing towards 'New Thrift'.

Has the time finally arrived for that most lacklustre of all holy grails: 'sustainable development'? I do not pretend that there is any evidence this will definitely happen, I am only saying that there are several strands of evidence that it could happen, and that some of it is already happening. The circumstances and some of the necessary drivers are present, and some of the obstacles to it have disappeared.

In short these factors are:

- There is a long term robust trend for thrift, originated with Inner Directeds before the recession began in earnest, and now almost certainly being adopted by Outer Directeds
- The risk avoidance and non-acquisitive elements of 'thrift' are already accepted by Settlers
- This trend has moved from 'the street' into innovative products
- The political hold of untrammelled growth over the mind of governments has largely collapsed (though as yet no political consensus has emerged as to what must replace it – the window of opportunity is open but many “non-green” entrenched interests have a vested interest in closing it as rapidly as possible).
- 'Green growth' has become accepted as conventional wisdom amongst governments such as the US and UK, at least at a rhetorical level

- Climate change provides a current and long term top-down driver for government policy which will require decoupling the energy and materials content from GDP
- The return of consumer led growth in the old model is unlikely until 2015 or later because of a shift in values orientation (at the individual psychological level)

### **Koo And The Balance Sheet Recession**

In 2008 Koo published *The Holy Grail of Macroeconomics: Lessons from Japan's Great Recession* (Pub Wiley) and although a North American he is an acknowledged expert on the economy of Japan as well as other countries.

Koo argues that this recession is not one where 'text book economics' applies, but a 'balance sheet recession'. In a balance sheet recession normal levers such as interest rates and the money supply do not 'work' because individuals, companies behave differently. Those who normally borrow from banks, and banks themselves are all trying to 'repair' their balance sheets, by paying off debt. Such a recession, says Koo, 'emerges after the bursting of a nationwide asset price bubble that leaves a large number of private-sector balance sheets with more liabilities than assets. In order to repair their balance sheets, private sector moves away from profit maximization to debt minimization'.

In normal times, and in a 'normal' recession, says Koo, saving is a virtue. But in a balance sheet recession it becomes a 'vice': the 'paradox of thrift'. 'With the private sector de-leveraging, even at zero interest rates, newly generated savings and debt repayments enter the banking system but cannot leave the system due to the lack of borrowers. The sum of savings and debt repayments end up becoming the leakage to the income stream. The deflationary gap created by the above leakage will continue to push the economy toward a contractionary equilibrium until the private sector is too impoverished to save any money (=depression). In this type of recession, the economy will not enter self-sustaining growth until private sector balance sheets are repaired'. I am no economist but Koo's analysis seems to have support from economic luminaries such as Nobel Prize Winner Paul Krugman [3].

### **The Fashion For New Thrift**

New Thrift is to be found in obscure things done mainly by young people, picking up ideas that have long languished in the 'worthy and weird' corner (such as Local Exchange Trading Schemes or LETS) and making them hip. Their sorts of companies are also doing it, and picking up the idea 'from the street'.

For example, in 2007, before the economic crash of 2008 and political leaders turned their thoughts to how to dig their economies out of recession, the 'swap' movement was taking off as a vigorous element of the 'new green lifestyle'.

Jess Cartner-Morley wrote[4] in *The Guardian* :

*'A perfect storm (as George Clooney fans will remember) is a situation where, by the confluence of specific factors, what might have been a minor issue ends up being magnified out of all proportion. Fashion forecasters are predicting that just such a phenomenon is about to hit consumer Britain. It brings together ethical shopping with bargain hunting, and fast fashion with vintage clothing, with a dash of MySpace-generation online networking added to whip up the waves a little more.'*

*Welcome to 2007's hottest fashion trend: swapping instead of shopping. Clothes swapping parties, which have been bubbling under for several years, are set to leap on to the radar with next month's launch of the first large-scale, user-friendly swapshop, Visa Swap.'*

New Thrift has been identified by [www.trendsetter.com](http://www.trendsetter.com) as the 'Eco-Sturdy' trend[5] while the US green website [www.treehugger.com](http://www.treehugger.com) talks of 'heirloom' products. Most of these trends start with combining planet-saving with saving-money, and parallel the spread of 'green' from the Inner Directed Pioneer world of ethics and campaigns into the leading edge of Outer Directed Prospector territory. For instance in 2006 this Newsletter reported evidence for a 'values-dynamic' tipping point, in which Prospectors were beginning to take up and reformulate 'green' in their terms.[6]

In the 'swapsies' movement[7] clothes[8] or services are exchanged instead of cash (see eg <http://www.gumtree.com> or [www.swapshop.co.uk](http://www.swapshop.co.uk) ). Other 'New Thrift' initiatives include [www.snaffleup.co.uk](http://www.snaffleup.co.uk), [www.swapskill.com](http://www.swapskill.com), [www.teamuphere.com](http://www.teamuphere.com), [www.readitswapit.co.uk](http://www.readitswapit.co.uk), [www.choosewhatyouread.com](http://www.choosewhatyouread.com), [www.gardenswapshop.co.uk](http://www.gardenswapshop.co.uk), [www.hybird.co.uk](http://www.hybird.co.uk), [www.whatsmineisyours.com](http://www.whatsmineisyours.com), [www.beautyswapshop.co.uk](http://www.beautyswapshop.co.uk), [www.ukholidayswapshop.co.uk](http://www.ukholidayswapshop.co.uk), [www.intervac.com](http://www.intervac.com) and [www.homebase-hols.com](http://www.homebase-hols.com). These are based on barter, exchange or re-use and cover subjects from holidays to books, service skills and gardening.

As of 2009 this fashion for recycling of existing products and durability is commodified in products such as Howies' new 'Hand Me Down'[9] clothes, a range sold on grounds of durability, bags made from old Virgin Airline seats[10] and similar products. Since 2006 [11] these have broken out of the 'Concerned Ethical' ghetto where they long existed in the context of Fair Trade and on the pages of catalogues catering for NGO supporters such as 'Natural Collection'[12], and are burgeoning in a younger much more chic market which is probably led by younger Transcenders and Now People.

Recent research conducted for a forthcoming IPPR study 'Consumer Power' by Reg Platt and Simon Retallack will show that that even amongst Now People, formerly (and perhaps still) the advocates of shop-til-you-drop, 'saving money' has now become an important consideration, and a frequent rationalisation for adopting 'greener' behaviours such as buying more efficient products.



If this 'New Thrift' becomes a politically important idea, if growth and desire is decoupled from material stuff, if we see an unprecedented emotional acceptance of consuming less new stuff, then the political objectives for growth itself could change. Sounds daft ? No dafter perhaps than the idea that mass cheap holiday air travel might be driving governments to build huge new airports might have appeared to a politician in the 1950s but that has happened.

### **The Lasting Effects Of Recession On How People Think**

Whatever happens we may have plenty of time to ponder it, and campaigners may have some years in which to plot their role and strategies. 'Debt rejection syndrome' says Koo, can take a long time to play out - he gives the example of the United States where US interest rates took 30 years to return to their 1920 levels after the Great Depression. From previous large scale changes in values, says Pat Dade at CDSM [14], he doesn't expect to see a return to 'consumer led growth' until 2015 at the earliest. Changing values normally takes at least 3 - 5 years and often longer, and many of those Prospectors, Outer Directeds seeking the esteem of others by getting the car, and the new house, are now unlikely to be able to borrow the money to do that, or to have the confidence to do so, for some years.

### **The Climate Driver**

Green growth has become conventional political wisdom. While ethical shopping was always overwhelmed by the tidal wave of economic growth, and advocates of a 'Green New Deal' were largely sidelined, framed-out from the political mainstream[15], 'green growth' was boosted by President Obama and has now become such a mainstream idea that it gets vigorous lip service from no less a master of the Dark Arts (is it just me or does he remind you of Professor Snape from Harry Potter ?) than Lord (Peter) Mandelson.

'Mandelson's green conversion leaves businesses splattered with rhetoric' wrote Rowena Mason in the finance pages of the UK *Daily Telegraph* on 22 July 2009, referring to the activist who threw green paint over Mandelson last year in a protest about expanding Heathrow Airport. Mandelson, as she points out, has never been a friend of the green lobby, but has now "got the glint of greenbucks in his eyes" and "has recently been trumpeting the "green job revolution". "Tackling climate change is about more than avoiding environmental disaster. There are tangible, immediate benefits for business," says Mandelson. "The world is in a race to low carbon and acting early will mean that we are positioned for the new industries that are being created."

As well as a desperate search to rebuild economic activity such 'political leadership' reflects a desire to stay 'in step' with public sentiment. Before the recession broke in 2008 'green' was slowly spreading from its ghetto among the longtime 'usual suspects'. For instance it surfaced in the "I hear the call" finding[16] of the 2008 British Values Survey on climate change - 78% (8,500 UK adults) agreed with "I can feel a growing pressure to change the way I live to reduce the impact of climate change", and that conviction spreads across Pioneers and Prospectors.

## Conclusions

It is true that no element of this is completely new. In 2007 TIME Magazine reviewed 'Future Revolutions' looking forward to 2008. TIME writer Justin Fox said[17] of 'The New Austerity':

*Journalists and others with a tendency to see glasses as half empty have a long history of pronouncing the American consumer maxed out. "Time for a New Frugality," this magazine declared in 1973. "Over the Edge in Debt," it chimed in again in 1987. It wasn't just TIME. Historian of credit Lendol Calder has assembled a long list of worried headlines through the decades: "Debt Threatens Democracy" (Harper's, 1940), "Is the Country Swamped with Debt?" (Business Week, 1949), "Never Have So Many Owed So Much" (U.S. News & World Report, 1959). And so on.*

What is different now is the coming together of forces. The Balance Sheet Recession induces a mass movement away from profit maximisation towards debt minimisation. Climate change provides an imperative for governments to restructure energy supply into more sustainable forms. And thrift has become fashionable.

The opportunity for campaigners is to convert these factors into political demands that the nature of economic activity changes but starting not in macro-economic theoretical terms such as Herman Daly's 'steady state economy' [18] but with specific, 'micro' policies that mean something in every day life, and which favour business activity that converts them into goods, services and jobs. This is a window of opportunity to nurture the political thought that there may be new ways of creating wealth, involving optimising rather than maximising. No doubt the remaining 'forces of maximisation' will aim to secure a return to business as usual as soon as possible but that is not inevitable. In the UK for example the proportion of Outer Directed people has dropped to 28%: 41% are Inner Directed, 31% Security Driven. So even on the crudest possible analysis - and it would be wholly wrong to blame all Outer Directed people for creating the recession - why should the political recipe for the economy be based on elevating and exaggerating the Outer Directed reflex to seek maximum conspicuous consumption, when 72% of the adult public are not primarily motivated to seek this ?

After all, most politicians are motivated by doing what society wants, being popular or being in charge. Few of them have any intrinsic interest in economic growth itself, so what form it takes is maybe more secondary than most campaigners might assume. The fact that for several decades it has been a political sine qua non in countries such as the UK that policy must serve maximisation at almost any cost, reflects the way politicians have been in thrall to the magic of 'The City' but if the people do not want it, it does not have to be that way.

## references

[1] Eg <http://www.allbusiness.com/society-social-assistance-lifestyle/philanthropy-charities/11817534-1.html>

[2] <http://www.scribd.com/doc/13970982/Richard-Koo-Presentation>

[3] <http://seekerblog.com/archives/20090411/richard-koo-more-on-the-balance-sheet-recession/> Paul Krugman has also noted that a 'glut of savings' supplies the capital that drives the ability for banks and financial services organizations to finance debt borrowing by the non-savers and is a key part of the



dynamics that drives bubbles...that in turn create depressions. It was the savings of the Chinese and Europe that drove the American bubble and if further conditions/reregulations are not created in the coming short period of time (less than 18 months) it is likely that the savings of American consumers (up from 0% to 4%) will provide the next stage of funds to the "lending" organizations that haven't change their attitudes towards maximizing.

[4] <http://www.guardian.co.uk/lifeandstyle/2007/may/18/fashion.ethicalliving>

[5] <http://www.trendwatching.com/briefing/2/#ecosturdy>

[6] [http://www.campaignstrategy.org/newsletters/values\\_dynamic\\_tippingpoint.pdf](http://www.campaignstrategy.org/newsletters/values_dynamic_tippingpoint.pdf)

[7] <http://www.timesonline.co.uk/tol/news/article708227.ece> Rosie Millard, Sunday Times, April 23, 2006, Goodbye shopping, hello swapsies and

[http://money.scotsman.com/scotsman/articles/articledisplay.jsp?article\\_id=9989034&section=Home&repordForce=SM\\_Money](http://money.scotsman.com/scotsman/articles/articledisplay.jsp?article_id=9989034&section=Home&repordForce=SM_Money) Scotsman Don't shop, swap Tue 24 Feb 2009 Rebecca Atkinson

[8] See also <http://www.swishing.org/home/>

[9] <http://hmd.howies.co.uk/>

[10] <http://www.wornagain.co.uk/collections/worn-again-virgin>

[11] [http://www.campaignstrategy.org/newsletters/values\\_dynamic\\_tippingpoint.pdf](http://www.campaignstrategy.org/newsletters/values_dynamic_tippingpoint.pdf)

[12] [www.naturalcollection.com](http://www.naturalcollection.com)

[13] Watch the Institute for Public Policy Research [www.ippr.org](http://www.ippr.org) in September

[14] [pat@cultdyn.co.uk](mailto:pat@cultdyn.co.uk)

[15] Campaign Strategy Newsletter 44 October 2008 Campaigning Your Way Out Of Recession

[16] [www.campaignstrategy.org/whogivesastuff.pdf](http://www.campaignstrategy.org/whogivesastuff.pdf)

[17] [http://www.time.com/time/specials/2007/article/0,28804,1720049\\_1720050\\_1721656,00.html](http://www.time.com/time/specials/2007/article/0,28804,1720049_1720050_1721656,00.html)

[18] [http://www.sd-commission.org.uk/publications/downloads/Herman\\_Daly\\_thinkpiece.pdf](http://www.sd-commission.org.uk/publications/downloads/Herman_Daly_thinkpiece.pdf)

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