

“I buy, therefore I am”

the economic meaning of the riots

- **The recent social disorder has economic dimensions which are hugely important but have received scant analysis.**
- **The consumerist ethos, in which a materialist vision is both pedalled and, for the vast majority, simultaneously ruled out by exclusion, has extremely damaging consequences, both social and economic.**
- **Britain needs to change its ethos, recast its role models, encourage saving, channel private investment into the creation rather than the inflation of assets, and switch public spending from consumption to investment within a focus on house-building, infrastructure and technology.**

Political and social comment has abounded since English cities were convulsed by violence but, beyond the possibility that government might need to spend more in certain ways, little has been said about the *economic* implications of the riots. Obviously, scenes of smoke palls hanging over British city centres are hardly going to encourage foreigners to invest in the UK, and one German newspaper has likened London to Mogadishu. But the economic implications go very much further than that.

Prime Minister David Cameron has taken the rioting as evidence for his “broken Britain” thesis, and Labour leader Ed Milliband has called for investigation whilst recognising that “to explain is not to excuse”.

Both views are right, but neither goes far enough. The reality is that the rioting underscores an observation made in our *Project Armageddon* report¹ to the effect that, at the very time when Britain faces major economic challenges, British society is more divided than at any time for at least seventy years.

In fact, the rioting ties together a number of deeply disturbing themes, each of which will have a fundamental bearing on how, or indeed *if*, Britain can escape from its high-debt, low-growth trap. The aim of this Note is to examine the economic factors which helped set the context for lawlessness, and to set out those parts of the economic challenge which are thrown into sharper relief by the violence.

We conclude that the rioting reflects a deeply flawed economic and social ethos, one which acts as a common skein running through the themes of generational theft, recklessly borrowed consumption, the breakdown both of top-end accountability and of trust in institutions, and severe failings by governments over more than two decades. All of these factors have grave economic as well as social and political implications. First, though, let’s look at what the riots were, and just as importantly, at what they were *not*.

¹ See [“Thinking the Unthinkable – Project Armageddon, the Final Report” Tullett Prebon strategy note 007, July 2011](#)

Designer chaos

Commentators casting around for comparisons with the recent riots have tended to make one of two choices. For some, the rioting evoked memories of the disturbances which racked London, Liverpool, Manchester, Bristol and other cities in the early 1980s. For others, the parallels are with the anti-austerity riots which have periodically convulsed Greece in recent times.

Neither comparison is helpful. The 1980s disturbances in Britain had a distinct racial element (which thankfully seems to have been wholly absent this time), and were at least ostensibly political, involving as they did complaints over “Thatcher’s cuts” and police heavy-handedness.

Riots in Greece, meanwhile, have been politically-inspired, even if the political arguments that Greek protestors advance are essentially puerile. (We know what the Greek protestors are *against* – austerity – but what would they like instead? A German blank cheque? Retiring at the same age as German, French, Dutch and British workers? Or perhaps – a radical idea – might they like to start paying their taxes?).

Britain’s recent riots were neither race-motivated nor ideological. These were not political demonstrations that got out of hand. They were, in the main, examples of mass criminality. Shop windows were smashed and buildings torched in pursuit not of ideology but of gain. Like Gordon Gecko in *Wall Street*, the essential logic seems to have been that “greed is good”. One youngster said that the rioting was meant to “show the rich and the police we can do what we want”. The syntax may be weak, but the intent is clear. Smash and grab. Shop without the inconvenience of paying.

Of course, lawlessness was far from universal, and was confined largely to inner cities. The crowd psychology of rioting and looting tends to require the critical mass of sufficient numbers. But the underlying motivation of compulsive acquisitiveness is probably far more extensive.

The question which this raises is an obvious one – *why has acquisitiveness come to trump respect for the law and for society?*

The Government, supported for the most part by the opposition, has tended largely to treat these incidents as criminality, pure and simple, and to call for measures such as tougher police powers and more exemplary sentences. There have been calls for enquiries into education and parenthood. But, whilst all of this is understandable, and might even be useful, it misses the real point.

One of the most abiding images of the rioting has to be the sight of young looters choosing designer goods with all the discretion of the most well-heeled shopper. What does this tell us about modern Britain, and how does it relate to growth, inflation, debt and other economic woes?

Deprived, depraved or deluded?

Once the British soft left regain the courage of their convictions, we are likely to be told that deprivation lay at the root of the rioting. This explanation, when it comes, will be very largely bunkum. In past times, and in other countries today, one can see extremes of poverty and deprivation which have no parallels in modern Britain. The political right doubtless will continue to lament the disintegration of morality and of respect for authority. This, too, will be a mistaken and simplistic explanation, even if it contains some grains of truth.

To understand the rioters’ motivations (which is not in any way to condone their actions), we need to see their behaviour in context.

That context is propaganda.

Political parties in Britain labour under severely constrained campaigning budgets, and no one is subjected to round-the-clock homilies on the virtues of socialism or conservatism. Newspapers of the far left have derisory circulations, whilst those of the far right are virtually non-existent.

But one social, economic and, by extension, political philosophy is pushed relentlessly at the public. That philosophy is consumerism. Consumerism is the underlying message of the advertising and marketing industries, and huge budgets are devoted to pushing a message which, updated from Descartes, is “I buy, therefore I am”. The consumerist push has extended relentlessly into all aspects of life. Two of its most insidious dimensions are association with celebrity, and the promotion of conspicuous consumption as an essential lifestyle choice.

In some ways, the lack of regulatory restraint or balance over the promotion of the philosophy of consumerism is both remarkable and disturbing. Advertising is shackled in certain areas (such as the promotion of alcohol and tobacco), and the regulatory authorities endeavour, to necessarily limited effect, to ensure that advertising does not mislead. But the pushing of the central consumerist message is entirely uninhibited.

Opponents of the consumerist message are puny beside the might of the advertising and marketing industries, the main advocates of alternatives being organised religions whose influence in countries like Britain is now extremely limited. Advertising is almost impossible to avoid. The typical internet user is subjected to at least one hundred advertisements per hour², and even those who confine their television exposure to public service broadcasters such as the BBC are not immune, as anyone who watched the sponsorship-drenched 2010 World Cup will attest.

The emotional and intellectual vices of consumerism lie outside the scope of this Note, but its economic and social effects do not. The view taken here is that rampant consumerism has been the single most significant factor in the creation of an unsustainable economic system, and that its deleterious effects are also part of the cocktail of contributory factors which prompted the recent spate of lawlessness. Consumerism was not, of course, the only contributing factor, but it is a good place to start.

Here’s the ideal. You can’t have it.

For today’s young generation, the message pushed at them by big corporates and the media alike is unmistakable – ‘you are what you own’. The direct promotion of products and services is nothing new, of course, other than in its relentlessly growing scale³. The more insidious dimension of the promotion of consumerism lies in its largely successful endeavour to capture lifestyle perceptions. Celebrities, be they sports stars, musicians, actors or the legions of D-list “celebs”, are linked to conspicuous consumption. ‘You’, young people are told, ‘ought to live like this’.

The second, flatly contradictory message is that ‘you can’t have it’. For the average young person, celebrity-style conspicuous consumption is tantalisingly but almost entirely out of reach.

For the overwhelming majority, the likelihood of becoming a sports, music or media star is so low as, for all intents and purposes, not to exist at all. Even an exceptionally talented young footballer has a virtually zero chance of matching the success of Lionel Messi or Cristiano Ronaldo. This, in itself, isn’t

² Fortunately, ad-blocking software can deal with this.

³ Vance Packard’s seminal book *The Hidden Persuaders*, published as far back as 1957, focused on manipulative methods and the creation of compulsions.

new. Britain was full of wannabe Alan Shearers in the 1990s, of would-be Allan Clarkes in the 1970s, and of schoolboy Nat Lofthouses in the 1950s.

The difference now is that the stars of sport, music and the movies are not promoted primarily for their professional and artistic talents. Advertisers have linked inextricably the names of the top stars to the conspicuous consumption of branded products. In the form of 'designer' goods, the label and the image have become more important than the product.

For a young person growing up in a non-rich household, the message, reinforced by peer pressure, is a deeply contradictory blend of 'this is fulfilment' and 'it will forever be out of your reach'. You are, the message says, inadequate if you don't own product X, Y or Z. But you are never going to own them.

Of course, looting organised by Blackberry indicates that those involved were not entirely shut out from the trinkets which they crave. But compulsive consumerism knows few limits to unattainable aspiration.

Do what I say, not what I do

In the context of the pushing of a consumerist concept of unattainable fulfilment, the idea of showing "the rich and the police [that] we can do what we want" makes a strange kind of sense. Substitute "the dominant elite" for "the rich and the police" and this amounts to "you tell us what to want, and then you tell us that we can't have it, but your own behaviour is no better than ours".

In the light of recent events, disaffection with Britain's institutions and its governing elite is hardly surprising, but it is surely alarming. Bankers are viewed with widespread contempt. Politicians have been discredited by the expenses scandal. The press has been caught hacking phones. Respect for the police has been undercut by revelations of bribery. In a remarkably short time, most of Britain's institutions have been tarnished, in the full spotlight of the media. To make bad perceptions even worse, and if union propagandists are to be believed, the rich habitually dodge taxes.

Of course, the charge-sheet is both exaggerated and misleading. Regulators, rather than bankers, were responsible for the financial crisis. Most politicians are not corrupt. Most police do not take bribes. A distinction that many propagandists seem not to grasp is that tax *avoidance* is legal, and is indeed encouraged⁴, but tax *evasion* is illegal, and is punishable as such. But perceptions matter at least as much as substance, and the perceptions both of Britain's institutions and of its moneyed and ruling elites have become tarnished both gravely and publically.

At the same time, the successful can all too often seem to be immune from punishment. Failed bankers keep their wealth, their pensions and even their titles, as do failed civil servants and failed politicians. The ruling elite can all too often look like a corrupt coterie of back-scratchers. Investigation of wrongdoing (such as the phone-hacking scandal) can all too often look half-hearted at best, in stark contrast to the brisk prosecution of crimes committed by members of the general public.

⁴ If, for example, the government raises tobacco duties in order to discourage smoking, the person who cuts down or quits is practising tax avoidance, by switching his spending away from highly-taxed products.

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Consumerism and flawed economics

British society faces severe challenges if, as seems to have been the case, the promotion of ‘unattainable consumerism’ played a major role in setting the context for social disorder. But it is equally serious for the economic outlook, and the *combination* of disaffected youth and a deteriorating (or, at best, a flat-lining) economy is an extremely serious matter.

Consumption obviously plays a major role in the economy – indeed, there would be no economy without it. But consumption *in excess of earnings*, and *to the detriment of productive investment*, has been the root cause of the current malaise in Britain, in the US and throughout much of the Western world.

For more than a decade, both government and private debt has escalated. The economy has been subjected to repeated ‘boom and bust’ cycles, above all in property. The overall pattern has been that an over-consuming West has borrowed and spent the surpluses of the increasingly productive and under-consuming East.

The real financial dynamic of the property price bubble in the UK, the US, and in other countries such as Ireland and Spain has been the channelling of debt into consumption, with most of the debt being sourced from the emerging under-consumers. For example, the British housing bubble saw notional gains in property values translated into excess consumption via equity release and property-backed consumer credit.

Along the way, the affordability of homes for those needing them has been overlooked almost entirely.

Just as importantly, houses are not income-generating investments, Rather, **houses are capital sinks**. Examined coolly and logically, a policy of deliberately incurring ever greater debt simply in order to inflate the notional values of existing (and *unproductive*) assets is the economics of the madhouse.

If young people have thought this through – as many may well have done – one implication has to be that the current generation has indulged in high living at their future expense. Public and private debts are a charge on the young people of today and tomorrow. In addition both to student debts and diminished forward employment, income and welfare prospects, young people are set to inherit a public debt which rises from £1.1 trillion (75% of GDP) to £2.5 trillion (167%) if quasi-debts such as pension obligations are included, and to £3.6 trillion (244%) if, in addition to this debt and quasi-debt, government ever gets called on its banking guarantees (which we think is pretty likely to happen). Together, mortgage and consumer debt total a further £1.46 trillion, or 99% of GDP.

In a previous report, we characterised this piling of obligations onto future generations as “generational theft”⁵. It would be surprising if even the vaguest awareness of this intergenerational value transfer did not inspire resentment in its victims.

⁵ See *The Dick Turpin Generation*, Tullett Prebon Strategy Note 001, March 2010

The way in which fears over sovereign debt have followed on from the property-and-consumption bubble and the ensuing banking crisis has been wholly predictable, since a process of “toxic asset transference” (TAT) has been occurring in an unmistakable way.

TAT works like this. Policy laxity prompts the banking system into supplying excessive debt to individuals and businesses. When the debt burden becomes too much for the borrowers, the value hole gets transferred to the banks. When they in turn threaten to become overwhelmed, the debt is transferred for a second time, this time to the state. Governments have at their disposal levers which consumers and bankers do not have, and can use inflation to devalue outstanding debts. But the result is economic stagnation through a process of minimal growth and escalating inflation.

The absurdity of tree-planting

A story is told about a pedestrian who is bemused by the spectacle of two council workers, one of whom digs holes and the other then promptly fills them in again. Enquiring about this, he receives the following explanation from one of the workmen:

“We’re planting trees. Alf digs the hole, Bert plants the tree, then I fill in the hole. Today, Bert is off sick”.

Absurd though this is, it is a good proxy for the way in which some politicians argue that borrowed government consumption, almost *any* consumption regardless of whatever constructive value it may have, is the only way to restart the economy. This is the public sector corollary of excessive private consumerism.

Disingenuously, advocates of borrowing and spending tend to point to the very low interest rates on UK sovereign debt as evidence that Britain can safely continue to borrow. This is to misunderstand the relationship between interest rates and growth expectations. Despite its very low debt ratio, Australia has high interest rates because growth expectations are bullish. Conversely, low-growth Japan has low interest rates despite its enormous public debt ratio. Current rates probably imply forward growth expectations for the UK of not much over 1%.

This situation is normal, and can continue for as long as markets believe in the borrowing government’s ability to service and repay its debts. But if this belief wavers – which can happen very quickly, as both Ireland and Greece have found out – the result can be **an inflexion point at which rates suddenly surge from very low to very high levels.**

Thus seen, further borrowing is not the answer to economic weakness. Rather, the UK has to accept the inevitability of low growth as the bill for the borrowed over-consumption boom turns up.

The way ahead

The aim of this Note has been to put the recent social unrest into its economic context rather than to offer solutions, but some desirable lines of development are surely obvious:

- **The governing elite needs to be stripped of its unaccountability.** This is essential if the enforcement of law and the promotion of social responsibility are to have any chance of success.
- **The dominant ethos of “I buy, therefore I am” needs to be challenged** by a shift of emphasis from material to non-material values. David Cameron’s ‘Big Society’ project may

- contribute to the inculcation of more socially-oriented values, but much more will need to be done to challenge the out-of-control consumerist ethos.
- **The government, too, needs to consume less, and invest more.** Government spending has increased by more than 50% in real terms over the last decade, but public investment has languished. Reductions in government consumption⁶ could free up resources for programmes such as infrastructure investment and a house-building programme, and both of these could contribute to an elevation of the skills base, most notably in engineering and technology.
 - **Saving** needs to be encouraged, and private investment needs to be channelled into **asset creation, not asset inflation.**
 - Another highly desirable move, for government and the media alike, should be a refocusing of **role models.**

The latter point is far more important, both socially and economically, than it may at first sight appear. A young person who tries to become the next Alan Sugar or James Dyson is as likely to fall short as if he or she sets out to become the next global football star. But the individual legacy of failure in these fields could hardly be more different. Failure to become the next Alan Sugar can still leave a person well equipped for a career in management, finance or accountancy. Failure to emulate James Dyson will leave the aspirant with useful engineering or technological skills. But failure to become a top footballer, musician or actor leaves no useful residual skills at all, and can all too easily create a sense of being locked-out from the pedalled dream of conspicuous consumption.

If Britain is to progress both economically and socially, the relationship between consumerism, role models, upper echelon accountability and productive investment needs to be understood in a way that it clearly has not been over the last two decades. If the recent riots contribute to a re-examination of these critical issues, a policy phoenix can rise from the ashes.



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⁶ Benefits are a big part of overall government-funded consumption, but little has been done to address this issue. As we explained in [Tullett Prebon Strategy Insights 004, Britain at the Crossroads](#), the interface between benefits and work is in urgent need of review, as the marginal loss of income can make finding work unattractive. One radical idea here could be to create a graduated interface by using 'negative taxation' as an alternative to benefits.

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