Nostalgia as a Financial Variable: "We're not depressed; we're worried."

by Neal E. Cutler, PhD

Abstract: Financial satisfaction about the future always includes some comparison between what we currently have and what we might need. Financial advisors appropriately focus on numerical projections of client resources and needs over the next number of years. But the mental metrics many clients use to evaluate future resources versus expenditures are rooted in their past personal experience. Even if they have sufficient resources to pay current bills, financial nostalgia from teenage years starkly reminds them that things will cost more in the future. They may not worry about today's cost, but these mental metrics emphasize that most important costs will rise. And for that, often independent of their income, their worries are real.

Last November I was the moderator of a neighborhood meeting of retirees to establish a local community organization whose purpose is to develop social services in support of their desire to "age in place" in their own homes. The 50 or so men and women, including several couples, were largely middle-class suburban home owners, healthy and mobile, in their late 60s to early 80s. As part of the informational background for the effort, the other speaker summarized recent gerontological research. The result of recent social and cultural changes in the United States, she reported, is that, nowadays, fewer older people are depressed than a decade ago.

I mention this fairly well-established research factoid only because of an especially interesting reaction it prompted. In the opening moments of the discussion an articulate woman, who identified herself as being in her early 70s, took issue with the thrust of that study. She concluded her comments by saying, simply, "We're not depressed; we're worried," and added that this was financial worry, rather than health or family concerns. Many in the room voiced agreement.

The poignancy of her comment stimulated today's Financial Gerontology discussion. What is the likely source of her anguished words "we're worried"? In another comment one man described his own worries by saying that the rising price of gasoline (about $3.05/gallon at the time) is limiting his family's spending, adding that when he first moved to Los Angeles, gas was only 28 cents a gallon.

Maybe the price of gas is more noticeable in suburban Los Angeles than on Manhattan island, but his very personal comparison of current versus past prices suggests a reasonable insight on why "we're worried." As a child of Depression-era parents I was intrigued and fatigued by my mother's constant referral to the 5-cent Hershey bar. And a generation later I'm sure that my Starbucks-struck 20-something daughter is tired of my harkening back to 10-cent coffee. The common denominator to all of this is the potential impact of financial nostalgia.

These "historical" price comparisons become the mental metrics by which we assess how we are doing currently. In particular, for men and women in "retirement" (a fluid concept these days) or on its threshold, financial nostalgia offers a quite personal frame for how we will be doing financially in the years to come. To be sure, such comparisons are more psychological than logical. While one's current wealth is not jeopardized by the increasing price of coffee or Hershey bars,[1] when it comes to envisioning one's personal financial future anecdotal comparisons are likely to be a pivotal piece of why "we're worried," if for no other reason than these trend comparisons shape worry about the fear of the unknown.[2]

As a complement to more scientific studies of the multivariate causality of financial worry, I decided to take a modest look at trends in the prices of Hershey bars, gasoline, and a few other everyday consumer items. How "real" are those dramatically recalled price increases that feed the mental metrics of millions of baby boomers—the first whom (as the media and politicians remind us) will celebrate their 65th birthday this year. We look a number of products, from houses and cars, to bread and butter, to (yes) Hershey bars and gasoline, comparing 1960 prices—when the first boomers were teenagers—to 2010.

A Pair of Critical Systematic Studies

1. Financial Shocks and Future Worry

As a scientific context for the gerontological relevance of financial nostalgia and price comparisons, we first take a brief look at two recent research projects that use very large surveys of the American public to document linkages among financial events and financial worry.

A 2007 study in the journal *Empirical Economics* by Owen and Wu examines the impact of unexpected financial shocks on individuals' worry about their financial future.[3] The analysis is based on the Health & Retirement Survey (HRS), a nationally representative sample of 7,000 middle-aged households age 51 to 61 when the longitudinal study began in 1992.[4] Respondents were asked about such personal financial events as getting laid off, unexpected medical expenses, major home or auto expenses, and unexpectedly high tax bills. These were correlated with their expressed level of worry about the adequacy of their expected retirement income. In good social science fashion the HRS asked a multitude of "background" questions—income, net worth, health, and occupation as well as age, gender, marital status, race, home ownership, etc. All the correlations between financial shocks and financial worry are "net" of these other variables.

The conclusions are based on elaborate multiple regression analyses controlling for both income and net worth. "We show that households that experience adverse financial shocks worry more about adequacy of their financial resources *in retirement,* even after controlling for the effects of these shocks on overall wealth. We find supporting evidence that suggests that at least part of the worry about retirement is due to general pessimism rather than changes in an individual's own circumstances."[5] (emphasis added).

The authors emphasize that while financial shocks may not affect a person's current financial resources, they do psychologically influence the future, first by shaping perception of future adequacy of the resources, and second by creating general financial pessimism about the future. Owen and Wu attribute their results not as an attitudinal response to negative events in general, but more specifically, "Our findings are related to evidence in the psychology literature that people adjust their future expectations given their past experiences." Other studies have found, for example, that people "tend to systematically overestimate the probability of unlikely events and underestimate the probability of more common occurrences"[6] and "overestimate the amount of risk they face relative to past risk."[7]

2. Adapting to Adversity

A second study, also relevant to the impact of the nickel Hershey bar of bygone days on current financial worry, is based on the most unique data I've encountered in the past 30 years. In "Adapting to Adversity: Happiness and the 2009 Economic Crisis in the United States," Graham and her colleagues analyzed data from a Gallup Poll project that interviewed a new national sample of 1,000 respondents *every day* from January 2008 to July 2009: 18 months or about 534 days.[8]

Each of these 534,000 respondents was asked three questions relating to financial worry: (1) the widely used Gallup "happiness" question [How would you compare yourself today with what you would identify on a scale of 1-10 as your best possible life?]; (2) satisfaction with your personal finances—and are they getting better or worse; and (3) satisfaction with the country's financial situation—and is it getting better or worse.

The interview responses were only "half" of the data. The authors constructed an events data base for those 18 months, identifying 42 econometrically significant events. In addition to the pattern of the DJIA and NASDAQ indexes, examples of specific events include the Bear Stearns $15 billion drop in liquid assets (3/13/08), the Lehman $3.3 billion loss in Q3, the Treasury $250 billion capital injection plan (10/14/08), the auto bailout (12/19/08), Fed and FDIC aid to the Bank of America (1/16/09), etc. The full set of events is included in the online version of the article.[9]

The analytic goal is to identify patterns and correlations among the daily national trends in financial worry and the financial events. Using good econometric practice the authors looked not only at average worry levels on a day-to-day basis, but used one- and two-day lags as well as moving multiple-day averages of worries, acknowledging that individual reaction to a negative event could come a day or a week later.

Not surprisingly, as the economy tanked during the first half of the 2008-2009 period, most of the attitudinal indicators followed suit: happiness declined as did views of personal finance and the national financial situation. From the vantage point of our current interest in how estimates of the future may be affected by past negative experiences, a key finding is *what did not change.* As the economy improved and brought along with it improvements in general happiness, people remained pessimistic about the **future** of their financial situation.[10]

Hershey Bars, Gasoline, and Other Stuff

Overall, both the HRS Financial Shocks study and the Gallup Financial Events study find that negative past events influence perceptions of one's financial future, even when those events do not substantially affect one's current financial resources. To what extent might this kind of recollection and assessment of past events generate worry on the part of otherwise financially well-situated boomers as they move into their own old age? Do today's $3 gallon of gas or $4 cup of coffee initiate a backward personal reflection that produces a forward set of worries more or less independent of one's current financial resources? Could this financial nostalgia be the basis of the mental metrics that produce financial worry? In light of these possibilities let's consider a small sampling of price patterns experienced by early boomers.

Boomer Price Experiences

In his classic (1923) essay on the impact of history and generational cohorts on society and economy, philosopher and sociologist Karl Mannheim noted that the most potent and significant generation-defining events are those that individuals experience when they are about 15-17 years old.[11] Consequently, we choose 1960 as the starting point of our financial nostalgia investigation since this is when the first boomers, born in 1946, were in their mid-teens. In 1990 these early boomers were in their mid-40s, and in December 2010 they were getting ready for Medicare. In this way we sample not only boomer experience with the costs of everyday life, but more significantly we see the change in price experiences from teenager to middle-ager.

Our working "hypothesis" is that current financial worries are in part a reflection of current prices compared to younger age prices. Table 1 shows comparisons for a few consumer basic "costs of living." The most generic is the Consumer Price Index (CPI), computed by the U.S. Bureau of Labor Statistics since 1913. From 1960 to 2010 the CPI, which serves as a benchmark for comparing other price trends, increased by 636%. While this is a substantial increase we often hear the "rebuttal" that incomes too have risen substantially over the years. Indeed, from 1960 to 2010 average wages increased by 662%, so at first blush it might appear that inflation has raised both prices and ability to purchase at the same general average pace.

On the other hand, other examples of "basics" in Table 1 suggest that the CPI versus wage comparison might underestimate the full story underlying boomer perceptions and financial worry.

TABLE 1

Consumer Basics

	1960	1990	2010	Increase 1960–2010
Consumer Price Index	30	131	218	636%
New homes	$12,700	123,000	238,880	1781%
New car	$2,600	16,950	27,958	975%
Gallon of gas	$0.25	1.34	2.83	1032%
Average wages	$5,315	28,960	40,523	662%

The cost of a new home, for example, increased from $12,700 to $238,000—a whopping 1,781% increase, almost three times the increase in the CPI and wages.[12]

Two other basic items are noted in Table 1. The average cost of a new car rose by 975%, and the average cost of a gallon of gas increased from 25 cents to $2.79, an increase of 1,016%. Gasoline prices have a unique and indelible "nostalgia" value in generational perceptions since getting a driver's license and use of a car are part of the American teenage rite of passage. Those of us who were teenagers in the late '50s and early '60s may remember not only gas prices of 25-28 cents, but "gas wars" when the pump price dropped to 23 cents. Alas, gas price wars don't seem to happen any more!

Everyday Discretionary Purchases

As teenagers most of us weren't involved in buying new homes and new cars so our financial nostalgia is more closely tied to the purchase of everyday things, such as those shown in Table 2. Mother was right about the Hershey bar! The once-nickel candy really has gone up in price (1,800%). And, by the way, the historical record indicates that its size has stayed at about 1½ ounces.[13] Corn Flakes and Oreos also contribute substantially to the nostalgia of price increases, although most of us probably can't recall those 1960 prices as precisely as we recall our teenage price of a gallon of gas. In Table 2 it's only the staples of milk, butter, and eggs that increased less than the CPI. Still, if you're an aging boomer who no longer buys milk on a regular basis, the supermarket price of over $3 per gallon is sticker shock.

If you're a pre-boomer (or a stamp collector) you know that the cost of a first-class stamp was 3 cents forever (actually, from 1932 to 1958 when it rose to 4 cents). Since the price is printed on the product itself and not just on the receipt, the 1,000% rise in the price of postage offers a stark and noticeable measure of financial nostalgia. [Like postage stamps, each item in Table 2 is priced for a standard unit (gallon, dozen, pound, box size).]

Cigarettes are an everyday purchase of a different ilk, and health advocates see rising prices as a mechanism for curtailing the purchase of tobacco. Nonetheless, from a price perspective they do contribute to the shaping of financial nostalgia even for nonsmokers. Because the price of a pack is heavily dependent on state-level taxes, the most and least expensive states (Rhode Island and South Carolina) are included in Table 2.

A Burger and a Coke

As part of everyday purchases I wanted to include Coke and Pepsi. As it turns out, however, this would entail a research project of its own just to reasonably establish the price per ounce. The historical data on these cultural icons, spread across dozens of documents and Web sites, refer to bottles, cans, six ounces, eight ounces, quarts, liters, singles, six-packs, eight-packs, etc. (By the way, the first Coke in a can was sold in 1940 for 5 cents.) The cost of soft drinks plays another financial nostalgia role, as described briefly below in "Another Story: Take Me Out to the Ball Game."

Finding reliable price data on a "standard" hamburger was as difficult as for Coke and Pepsi. Not surprisingly, there are several Web sites devoted to McDonald's burgers dealing with price and history, as well as nutrition, marketing, investment, etc. The details of pricing campaigns, e.g., lowered burger prices when bundled (supersized) with fries and a soft drink, make trend analysis difficult. Within this context the "McDonald's basic" data shown in Table 3 are reasonably reliable.[14] But since marketing campaigns can suppress the true prices of the product, we include the more reliable consumer prices for the "components" of a home-created hamburger sandwich: the meat and the bread.

I can recall that as a teenager those McDonald's (the word was a noun, not an adjective) cost only 15 cents, as did an order of fries. Considering the 1960-2010 trend for Oreos and a Hershey Bar, the 493% increase doesn't look so bad. The retail components of a burger at home, however, are probably more illustrative of the generational price experiences of early boomers: a 787% increase in the cost of a pound of hamburger meat and a 523% increase in the price of a one-pound loaf of bread, both fairly close to the trend in the CPI.

Another Story: Take Me Out to the Ball Game

Table 3 includes the 1960-2010 price trend in Major League baseball tickets. In the same league as new homes, gas, a Hershey bar, and Corn Flakes, with an increase of 1,264% baseball tickets show a dramatic rise in cost. Like all the products in these tables, the baseball data are for an average purchase, and there is as much variation around this average as with any other product or purchase. My attempts to find price trend data for soft drinks, beer, and burgers led me to an especially unique focus on financial

TABLE 2

Everyday Discretionary Items

	1960	1990	2010	Increase 1960–2010
Hershey bar	$0.05	0.45	0.95	1800%
Kellog's Corn Flakes	$0.27	1.99	4.49	1563%
First-class stamp	$0.04	0.25	0.44	1000%
Oreo cookies	$0.45	2.69	3.81	747%
Milk	$0.49	2.78	3.06	524%
Butter	$0.67	1.99	3.72	455%
Eggs	$0.55	1.00	1.55	182%
Cigarettes (RI)	$0.40	1.70	7.74	1835%
Cigarettes (SC)	$0.34	1.29	3.97	1068%

TABLE 3

Burgers and Ball Games

	1960	1990	2010	Increase 1960–2010
McDonald's basic	$0.15	0.75	0.89	493%
Hamburger meat	$0.45	0.89	3.99	787%
Loaf of bread	$0.22	0.70	1.37	523%
Baseball tickets	$1.96	8.84	26.74	1264%

behavior—the emergence of a baseball Fan Cost Index (FCI). The FCI was invented by Team Marketing, Inc. in 1991 so there are no comparable financial nostalgia trend data.[15]

The FCI is an average cost—across the ballparks of all the major league teams—of the following: two adult tickets (regular, not premium), two child tickets, two small beers, four small soft drinks, four hot dogs, two baseball caps, one program, and parking for one car. The average for April 2010 was $195. The range around the average FCI is substantial: $335 for the Boston Red Sox to $115 for the Arizona Diamondbacks. The range around the average ticket cost of $27 was $53 to $14 (a tie among Red Sox, Cubs, and Yankees versus Diamondbacks).

Financial Nostalgia

Financial satisfaction and worry, as substantial research has demonstrated, are the result of a complex set of factors within which money is not necessarily the most critical. For a variety of reasons lower-income families may be satisfied financially with their lives just as wealthier people may express financial worry.[16] Here we have taken a quick look at a different kind of social-psychological variable, dubbed financial nostalgia.

Financial satisfaction about the future always includes some comparison between what we currently have and what we might need. Financial advisors appropriately focus on numerical projections of client resources and needs over the next number of years. But the mental metrics many of us use to evaluate future resources versus expenditures are rooted in past personal experience. Conversations with middle-aged and older men and women about their financial future are typically peppered with references to the lower prices experienced in their younger years. Even if we have sufficient resources to pay current bills, financial nostalgia from teenage years starkly reminds us that things will cost more in the future. We may not worry about today's cost of a Hershey bar or a McDonald's and a Coke. But these mental metrics emphasize that most important costs will rise. And for that, often independent of our income, our worries are real. ■

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(1) Although it should be noted that while from 1960 to 2010 the CPI rose by 636%, the price of gas rose by 1032%, so some of these mental metrics may be quite on target.

(2) As discussed, for example, in Neal E. Cutler, "Retirement Planning and the Cost of Long-Term Care: Battling the Fear of the Unknown," *Journal of Financial Service Professionals* 50 (1996).

(3) Ann L. Owen and Stephen Wu, "Financial Shocks and Worry about the Future," *Empirical Economics*, 33 (2007).

(4) Details of this valuable resource, sponsored by the National Institute on Aging, the most scientifically robust study of finance and health available, have been described previously in this column. See Janice I. Wassel and Neal E. Cutler, "What's New in Middle-Age Mortality?" *Journal of Financial Service Professionals* 61 (November 2007).

(5) "Financial Shocks and Worry about the Future," p. 515.

(6) W. Kip Viscusi, "The Value of Risks to Life and Health," *Journal of Economic Literature* 31 (1993).

(7) Paul Slovic, "Perception of Risk," *Science* 236 (1987).

(8) Carol Graham, Soumya Chattopadhyay, and Mario Picon, "Adapting to Adversity: Happiness and the 2009 Economic Crisis in the United States," *Social Research* 77 (2010).

(9) http://www.thefreelibrary.com. (Enter "Adapting to Adversity, Carol Graham" into the search box.)

(10) Obviously this column is barely touching the richness of the analysis and the results of this unique set of 534 sequential-daily national public opinion polls and the analysis of Dr. Graham's unique work on financial happiness. Financial professionals interested in finance, health, inequality, financial public opinion, or the economics of happiness should download a copy of her article. And if you drive a car you might want to download her parallel 2010 report titled "(Un?)Happiness and Gasoline Prices in the United States," www.brookings.edu (enter "gasoline, Graham" into the search box).

(11) Karl Mannheim, "The Problem of Generations" in Paul Kecskemeti (ed.), *Essays on the Sociology of Knowledge* by Karl Mannheim (Routledge & Kegan Paul, 1952), first published in 1923.

(12) Sources for Table 1: new home, new car, gas, wages: www.thepeoplehistory.com/70yearsofpricechange.html; recent gas prices are from: blogs.consumerreports.org/cars/gasprices/; CPI: www.bls.gov/cpi/.

(13) Sources for Table 2: Hershey, Corn Flakes, Oreos: www.foodtimeline.org/fodfaq5.html; stamps, milk, butter, eggs: www.1960sflashback.com/1960/Economy.asp (also "1990s" & "2000s"); cigarettes: http://apps.nccd.cdc.gov/statesystem/TrendReport/TrendReports.aspx (NB: cigarette data in Table 2 are for 1970, 1990, and 2009).

(14) Sources for Table 3: McDonald's: www.foodtimeline.org/foodfaq5.html; hamburger meat, bread: www.thepeoplehistory.com/70yearsofpricechange.html; baseball tickets: eh.net/encyclopedia/article/haupert.mlb.

(15) *Team Marketing Report* (April 2010); www.teammarketing.com.

(16) In an early-career comparison of age and generational differences in political and social attitudes we found clear evidence that age-related patterns of financial satisfaction were influenced as much by health and family satisfaction as by level of income: Davis B. Bobrow and Neal E. Cutler, "Time-Oriented Explanations of National Security Beliefs: Cohort, Life-Stage, and Situation," *Peace Research Society (International) Papers 8* (1967). For a very systematic review of research that documents this general proposition (published in the first Financial Gerontology textbook), see: Linda K. George, "Economic Status and Subjective Well-Being," in Neal E. Cutler, Davis W. Gregg, and M. Powell Lawton (eds.), *Aging, Money, and Life Satisfaction: Aspects of Financial Gerontology* (Singer Publishing, 1992.)