

Book Review

The New Frugality: How to Consume Less, Save More, and Live Better

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Author: **Chris Farrell**

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Chris Farrell is the economics editor for *Marketplace Money*, a weekly personal finance show syndicated nationally on public radio by American Public Media. He is an economics correspondent for two other American Public Media programs, the business program *Marketplace* and the documentary unit American Radio Works. He is the contributing economics editor at *Business Week* magazine. Farrell is also the author of two other books: *Right on the Money: Taking Control of Your Personal Finances* and *Deflation: What Happens When Prices Fall*.

As a financial counselor who has been encouraging frugality for years, the idea of a “new frugality” seemed a bit strange when I first heard the phrase. However, in light of the current recession and many media reports of reduced spending by consumers, it is very appropriate. While reading the chapters, I gained a sense of the author’s perspective of frugality as “understanding how money is connected to the rest of your life—saving and spending mindfully, not just counting dollars and cents for their own sake” (p. 208).

With the economy being what it is today as a result of what the author calls the “Great Recession”, the principles discussed in this 229-page book are educational and inspiring. The author uses personal life experiences, age-old wisdom from greats like Benjamin Franklin and T.S. Eliot, and quotes from *Don Quixote*, *David Copperfield*, and *The Merchant of Venice* to add flair to his delivery method. Each chapter begins with a notable quote from a great literary figure that allows the reader to reflect on the impor-

tance of living a life of balance, financially and otherwise. The overall objective of the book is to encourage consumers to make spending choices that reflect their core values while maintaining a healthy relationship with money.

Chapter 1: The Rise of the New Frugality

The book begins with the author suggesting that this time is different from times past where consumers tightened their belts during tough times only to revert back to their old habits once things improved. He says “this time the epicenter of change is in the household.” He defines what the “new frugality” means and that having wealth and living the good life is more than having a healthy bank account (although having money in savings can certainly provide many opportunities and help prevent financial hardships). He suggests that a frugal consumer seeks out quality, not quantity, considers all factors associated with spending decisions, and builds the case for the natural connection of frugality and being green. Some common practices include using public transportation, using energy-efficient appliances, renovating rather than building, turning down the thermostat in winter, avoiding the purchase of prepared foods, and recycling clothing, furniture, and other goods within your community.

Chapter 2: The Great Transformation

The author summarizes the events leading up to the real estate crash in 2008 and how consumers have become more aware of the environmental and social impacts their choices have on the economy as well as their individual

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households. “Americans borrowed so much that household debt hit a record 131% of annual disposable income in early 2008. We owed a third more than we were taking home each year after taxes” (p. 26). Having relied too heavily on credit, consumers are now seeking solutions to their financial difficulties.

Farrell outlines the history of modern consumerism and why living a frugal lifestyle is more appealing. Many Americans are now realizing how vulnerable they are to financial setbacks, especially with an uncertain job market, heavy debt-loads, and little or no savings. There has also been a value shift in consumer spending from just purchasing material items to having meaningful experiences with family and friends while engaging in community events such as a race for a particular charity or volunteering together to help those in need. This change in outlook allows for a more enriched and enjoyable life and makes us feel good about ourselves as we “save more and borrow less while pursuing quality and simplicity” (p. 33).

Chapter 3: A Margin of Safety

As the events of the recent past are still fresh in the minds of most Americans, the author drives home the importance of having a margin of safety amid an economy full of uncertainty. This margin of safety mindset should be at the forefront in all areas of our personal finances whether it involves establishing an emergency fund, purchasing a car, borrowing for higher education, homeownership, where to place our investments, or making decisions regarding retirement. As quoted in the book, Warren Buffet suggests, “When you build a bridge, you insist it can carry thirty thousand pounds, but you only drive ten-thousand pound trucks across it. And that same principle works in investing” (p. 45). Living within our means and being mindful of our resources allows for that margin of safety.

Chapter 4: The New Frugality Rules

The author outlines the basics for living a frugal life. The phrases keep it simple, pay yourself first, and invest in yourself are heard repeatedly by financial educators and counselors. Along with these, the author also includes rules such as worry about the downside, borrow rarely and wisely, and give back. Putting each of these rules into balanced practice is essential. Many Americans are experiencing financial hardship by not following these simple rules. This is evidenced by scenarios where clients have practiced “mental accounting” where nothing is ever verbalized or written down and suddenly they realize there is no money left to save for their future. Setting clear finan-

cial goals and tracking expenses are at the core of personal financial management and lay the foundation for achieving financial security.

Chapter 5: Make Frugality a Habit

In this chapter, the author gives specific advice on how to make your money work harder for you by taking advantage of compound interest, automating your savings, budgeting and planning ahead, downsizing, lowering transportation costs, frugally-minded shopping and tracking expenses. Page 71 is devoted to Internet resources specifically about eco-friendly frugality such as freecycle.org, frugalvillage.net, and greenerpenny.com. Important aspects of selecting life, disability, and long-term care insurance are also addressed along with information on estate planning and the importance of having a will.

Chapter 6: Borrow Wisely

When there are too many flavors to choose from, things can get confusing. Such is the case with the recent real estate crash. Consumers were inundated with assorted loan options, many of which were too complex to understand. Plain vanilla is the idea of promoting loan products without all the bells and whistles or hidden fees. The author provides resources, such as the National Foundation for Credit Counseling (NFCC) and Nolo.com, for those who find themselves in debt trouble. He then outlines the impact credit reports and credit scores have on consumers’ ability to purchase goods for a reasonable price. The bottom line is to streamline and de-clutter household finances so that more time can be spent on doing some good and living better such as focusing on meaningful relationships with family and taking part in community events.

Chapter 7: Investing the Simple Way

Regarding investing, the author encourages consumers to take advantage of employer-sponsored retirement plans such as a 401(k) and individual retirement plans (IRAs). He states that incorporating dollar cost averaging and diversification are important keys to success. Farrell goes into detail about how index funds are a good bet for most folks because they offer diversification and low fees. He cautions against relying only on money managers’ track records and past performance of stocks when selecting investments and warns against the delay of investing. He states, “The financial price for procrastinating is that you delay building a margin of safety” (p. 114).

Farrell argues that, over the long-term, there is no trade-off when investing in socially conscious funds. He shares the

following, “Recent studies find little difference between pooling money to make money and pooling money to make money and express values” (p. 135), and mentions several studies done at Santa Clara University to illustrate his point.

Chapter 8: Live Long and Prosper

Americans are not saving enough for retirement and the economic downturn has made things worse for boomers nearing retirement. There are also well-known concerns regarding Social Security and health care. These concerns have caused a shift in the plans of many Americans and the author strongly cautions retirees to draw on savings very modestly at the beginning of retirement stating that, “there is always a big gap between a financial plan—no matter how well designed and thought through—and the reality of everyday existence. You want to leave yourself a margin of safety to make adjustments to your finances” (p. 166). A section is devoted to guidelines for selecting a financial planner as well as online tools that are available to consumers such as analyzenow.com and esplaner.com.

Farrell discusses the “retiring” of retirement and that it is no longer a time of withdrawal for most people, but the beginning of new opportunities for personal fulfillment. He calls it the “labor-longer-into-old-age strategy” and says it “gives people the flexibility to find out what they really love to do and the means to reshape the balance between work, family and community” (p. 154). He cites an organization called Civic Ventures (civicventures.org), a non-profit organization that encourages retirees to make a difference doing what they love.

Chapter 9: Home, Sweet Home

To own or not to own; that is the question. This chapter encourages conservative financing and emphasizes the importance of having at least 20% down when purchasing a home and making an extra payment every year to pay down the principal balance quicker. It also gives reasons for why a buyer may or may not want to pay points at closing. Taking an honest look at whether or not owning a home is right for your specific financial situation is something every consumer must do. The type of housing available plays an important role in whether or not buying is affordable. The author mentions the option of shared equity, which is a living arrangement where members of a family share the mortgage costs and appreciation in the value of a home. An example given is having a mother-in-law suite connected to a single family home.

Chapter 10: The College Sheepskin

While education pays, the cost of getting an education depends on the level and type of education received and what school one attends. The author adds “The student-loan-debt burden is real. From 1982 to 2007, the cost of fees and tuition surged by 439%. Yet median family income increased only 147%, according to the nonprofit research organization the National Center for Public Policy and Higher Education” (p. 191). He declares that “the new face of poverty comes with a student loan” because some students are simply not completing their degrees and are required to begin repayment without the salary they were expecting upon graduation. By starting to save early through 529 college savings plans and becoming familiar with how the financial aid system works, parents and students will be more prepared for college costs. Using the two-plus-two method, where a student attends a community college and then transfers to a four-year university for the last two years, is a great way to save money on higher education.

Chapter 11: Generosity and Gratitude

The last chapter of the book focuses on giving. The author relays this message from Benjamin Franklin, “I would rather have it said, He lived usefully, than, He died rich” (p. 208). Whether living usefully means being a good parent, volunteering in your community, doing public service, or having a lifelong career, Franklin is saying that it is not something that is measured by how much wealth you accumulate. The author explains how charitable giving and volunteering improve the framework and spirit of communities and enriches the lives of those who contribute.

Along with sharing the key components for living a frugal life, the author provides relevant and up-to-date resources for budgeting, saving, insurance, saving for college, homeownership, investing, and retirement planning. Also included are websites specifically focused on green living to emphasize the idea that frugality is sustainable.

As practitioners, our goal is to motivate others to make positive changes in their financial behaviors leading to a better quality of life over the long term. This book can be used as a resource for financial counseling and education focused on frugality and sustainability suggesting that, combined, these concepts help to improve our economy, the environment, and our life experiences. This book offers a new approach when discussing how and why living a frugal life is so much more than just pinching pennies and gives specific advice on how it can be accomplished.