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MONEY BOX SPECIAL: PSYCHOLOGY

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HASLAM: Hello and welcome to another of the summer season Money Box Specials. This week, we look at how we're coping psychologically with the fallout from the financial crisis. Are you fearful for the future? Angry? Defiant? Or couldn't care less? Or maybe all of the above? The Mental Health Foundation says such stress is widespread, with 8 out of 10 people worrying about the impact of the economy on their finances. So in today's programme, we find out if we've got things right in our minds, or if we've thought our way into a recession? Maybe things aren't quite as they seem.

MACMILLAN: I looked at the last recession and found that half of the households that I looked at saw an increase in their real household income.

HASLAM: We look at how the way we think about the recession has affected our habits in the shopping malls and our work places.

MALE 2: And they've increased the workload. They've made us work later and they've taken away our shift allowance. We're finding it quite de-motivating. We're not getting any incentive apart from it's just making us keep our jobs.

HASLAM: And I get to lie on a couch and talk about my childhood. More of that in a moment. First though, let's hear from the panel who I hope are all willing to bear their souls. One man who's been exposed to the news about the recession on a daily basis

is City Editor of the Sun newspaper, Steve Hawkes. Steve, job losses in your industry are rife. Is that bothering you on a personal level?

HAWKES: Not quite yet. I mean as Business Editor, I think we all knew that if anyone was safe in the credit crunch, it would probably be the Business Editor, the geek in the corner who's good at maths, because papers needed us to report about it. But, yeah, it definitely makes you more cautious.

HASLAM: There's also Dr Sheila Keegan, a consumer psychologist. You must be very aware of your own feelings, Sheila. What's your response to the recession? Give us a summary of how you're doing?

KEEGAN: I think I've become very penny pinching actually. I've been running around the house turning off light bulbs and shopping in sort of discount stores.

HASLAM: Do you necessarily need to be?

KEEGAN: No, but it's part of the climate and I think that's a sort of trend that's happened generally; that even people who aren't affected by the recession feel that because there's so much uncertainty around, they never know when it's going to be their turn. So I mean I went to one of these discount stores and bought loads and loads of this revolting toothpaste and I'm trying to work my way through it now. And it's part of almost a punishment, I think, that we have to sort of pull up the drawbridge and be much more economical and aware of how we consume.

HASLAM: Also joining us in the studio is Mike Emmott, Head of Employee Relations at the Chartered Institute of Personnel and Development. Mike, what have you been going through emotionally with this downturn?

EMMOTT: Well it hasn't hit me as hard as I might have expected. I missed the redundancies. It didn't hit me. It hit one or two people I know and that's sad, but in a sense you sort of plough on. I'm in the middle of a pay freeze, but that's not in itself a

serious thing with inflation flat. And I guess I count the pennies too, but more out of habit than because the recession has had some tremendous impact. I guess I think I'm doing my bit for the cause, but frankly it's just habit.

HASLAM: Keep calm and carry on?

EMMOTT: Indeed.

HASLAM: Thank you for your candour. I suppose I can't really get away without revealing that quite often during this incredible roller coaster of a story, I've had my own fair share of distress about it with lack of job security as a self-employed person. But is it normal to react like that? I went to see Rhiannon Hill, a psychotherapist in Brighton, to see if it was just me who was sleepless in recession? *(to Rhiannon)* Rhiannon, I've come here because I'm worried. I'm worried about my own personal finances; I'm worried about the greater economy; I'm worried about the world and everyone being in a right mess; and I'm just wondering if there's anything you can say to me or suggest that I do to try and alleviate those fears that would perhaps not involve putting my head in the sand?

HILL: Well first I'd like to look at what the quality of your worry is because it's an individual issue. Obviously lots of people are "worried" right now about the economy, but there's so many things that you can fix and there are so many things that you can't fix, so I'd be much more interested in your response to the situation that's going on at the moment.

HASLAM: As a personal finance journalist, you'd expect me to have some level of awareness of my income and my outgoings, which I have - I've got a spreadsheet. And as a single parent and a freelancer, I've always had a low level of anxiety about providing for my family, so that's nothing new. But this recession is really, it makes me really sad and a bit fearful.

HILL: Well it's great that you know the emotion that's attached to what you're thinking. You've got your great spreadsheet, you've figured it all out in your head and

you're feeling in control on that level. Of course whether you're *really* in control of what's happening in the wider community or with yourself in your own life is a different matter.

HASLAM: Are you seeing more people coming through your doors who are expressing concerns like mine?

HILL: A lot of people are really panicking because they're in what you might call non-essential services. You know I don't get many firemen or doctors or dentists. I get a lot of creatives, and they are feeling very insecure right now and it is causing lots of problems because people dump their stress on their nearest and dearest.

HASLAM: And of course if as a couple or as an individual you define yourself through what you've got in your world and how buoyant you feel within it, any sort of unravelling of that is going to cause concern and pressure, isn't it?

HILL: The configuration of peoples' marriage type relationships has changed a lot over the last 30, 40 years, and people tend to want to keep their own kind of separate finances. One person might lose their job. The other person will either say, "Well I'm not supporting you. You need to get some money or else". Other people might say, "Well actually, I've got loads of money. I'll look after you for a while". And regardless of gender, some people don't like that. Another pattern I'm noticing is people processing new lack of status and talking about, "I used to be an IT consultant. I used to earn 150 grand a year, and actually now I've just started my own cleaning company". You know, which is ... there's a lot of social cachet attached to certain professions, as we all know, and a lot of people need to come and process that. That's something that I've *really* noticed in the last year. There's been a lot of switching around of careers and people needing to say, "Actually is this okay what I'm doing? Am I a loser? Am I a failure?" I sometimes have to treat them as a bereavement client because there's a loss, there's an enormous loss. So I would treat a client in that way and hope to help them process through that bereavement, and that would require going through the five stages of bereavement that we all know about. I am having people saying to me, "Do you know what? For the last month, I've been feeling

completely differently about this and I don't think I'm going to go back". So I think that's happening with people that have had to exchange one construct of what they think their lifestyle *should* be for a whole other construct and being okay about it. I think that's the objective and it's working, yes.

HASLAM: That was Rhiannon Hill, a psychotherapist in Brighton. Sheila Keegan, do you recognise what you've just heard?

KEEGAN: Well very much so. I think that what Rhiannon was describing is rife across most of society. We're not very good at dealing with change. We need some change in our lives otherwise we get sort of stagnant, but if we have too much change then we become incredibly anxious, pessimistic, and just lack security and feel no sense of control. And I think that's what's happened in the last sort of months really or the last year.

HASLAM: And we're not very good at talking about money anyway, are we? So if we're stressed around it, it's going to be even worse.

KEEGAN: Yes. And it's not just money. I think it's undermined our sense of who we are and who is really sort of running the country. I mean I think we felt that the banks and the Government were sort of parental figures in a way. They were in charge and somehow, whatever happened, they would sort of help us, they'd look after us. And of course now we realise that they're on sort of shifting sands.

HASLAM: They don't know what they're doing either.

KEEGAN: So who is in control? And I think that creates huge levels of anxiety for people, even those who aren't affected financially.

HASLAM: You're a consumer psychologist, so how are we changing our habits? You've bought rubbish toothpaste.

KEEGAN: Yes. (*laughs*)

HASLAM: What else are we doing?

KEEGAN: Certainly some of the things we're finding in our research are the sort of, the flight to the familiar; that people tend to look for things that they feel secure and safe within. And the family is one aspect; that we're finding people instead of asking for advice from financial experts, for instance, they will turn to other knowledgeable people within the family. I think there's much more emphasis on family values, on the home, familiar holiday destinations. And we've seen - and again this may be a temporary thing - a sort of trend towards more traditional gender roles. I mean sort of men in their 30s saying, "Well yes, I'm the breadwinner. And the wifey" - which is an expression I haven't heard for some decades - "the wifey has to stay at home because you know we have to work". And young women we're talking to occasionally saying, "Well you know I'm 22. I want someone to look after me". This may be a temporary phase.

HASLAM: Steve Hawkes at the Sun, do you think the nature of consumer society can change that fundamentally? Will the Aldi effect or the staycation be here for good?

HAWKES: Sheila's bang on because I think last year was almost an amazing cultural shift where people went to stores like Aldi. At that time I was on the Times and you could see people in the office who you wouldn't normally think would be an Aldi shopper coming back in the office on a Monday morning and saying, "God, have you seen their £7 beef Wellington? You know it's amazing!" and all these people discovering this store that they never ever went to. And I think the credit crunch, it released a lot of pressure on people. They suddenly didn't have to keep up with the Jones's. It became fashionable to scrimp and save. We've come a little bit back to normality now. I think people have settled. People have now accepted the condition we're in.

HASLAM: Mike Emmott, do you see this new blitz spirit extending into the

workplace? Has the recession been a leveller? Everyone's bringing in their own sandwiches for lunch, for example?

EMMOTT: I guess probably most people are economising on lunches and probably working through lunch, but the big thing about the workplace is that people aren't taking it out on the boss in the way you might have expected. Back in the 90s, when bosses were being a bit tougher and playing it to the shareholder vote and saying well we'll just get rid of these few thousand people and that will be good on the share price just isn't happening. People don't claim credit for redundancies. And I think that there's a sense that we're all in this together. I think employers are trying harder about communicating. I think they're making a better job. Nobody ever does it brilliantly, but I do think, yeah, there's a sense that it's not their fault up there. It's happening to all of us. We all have to pitch in and do something about it.

HASLAM: Well back in the era of BR - that's Before Recession - there was concern that the downturn would get worse because we'd all jump onto a downward spiral of negativity and lose confidence. Money Box wanted to find out if we're guilty of making matters worse simply by thinking things are worse and exaggerating the problem, so we sent reporter Michael Blastland out into the fresh air of the real world.

BLASTLAND: "Tell us about the recession and psychology", they said. "Well I'll have to start that on the millennium bridge", I said. Millennium bridge? Recession psychology? How does that work? Well it goes like this because this bridge when it opened was famously wobbly. And the reason it wobbled was that people (just a few) took a sideways step - maybe a slight gust of wind, something like that. And because they stepped that way the reaction of the bridge was a little more exaggerated on the way back and that caused more people to step the other way, until just about everyone was doing this absurd lateral goose step and the whole bridge was swinging around quite dangerously. And that feedback where what we do depends on what other people do is a fundamental part of the economy, except that it has an added twist. It's not just what other people do; it's what we *think* other people will do, and sometimes what we think other people will think. At least that's the theory. So what do people think about the recession? Money Box has thrown vast social survey resources at the

problem and concluded that your guess is as good as mine. But we have found a few surprising facts, suggesting that our perceptions aren't always reliable. Here's a gem from Lindsey Macmillan of Bristol University.

MACMILLAN: I looked at some data using the British Household Panel Survey of the last recession, and found that actually half of the households that I looked at saw an increase in their real household income over the period.

BLASTLAND: That's the period of a recession?

MACMILLAN: That's a period of a recession.

BLASTLAND: Half the population is getting better off in a recession?

MACMILLAN: Yes.

BLASTLAND: What happens in normal times?

MACMILLAN: Well I did look at a period, 94 to 96, which was a period of expansion and growth in the economy, and actually the figures looked very similar to those figures that I saw during the recession.

BLASTLAND: Now just a minute because that hurts (*laughs*) because you're saying that the pattern of people getting richer and poorer is much the same when there's not a recession as there is when there is a recession?

MACMILLAN: That was true for this particular set of data that I looked at. I think that it does depend a lot on the severity of the recession. As a total percentage of the population, you know there's been a 2% increase in unemployment compared to what it was before the recession. Big enough so that those people that are affected are really affected, but still 2% of the working population. So of the overall population, that's probably even less.

BLASTLAND: Lindsey Macmillan. On TV the other day, an announcer said, “With everyone feeling the pinch these days” - everyone? - “recessions are uneven. The fall in GDP is an average that hides deep variation - perhaps 10% or fewer take 90% of the pain. Businesses too”. Have we got the problem out of proportion? No, says Ann Pettifor, an economist who thinks people’s judgment about right.

PETTIFOR: We may not all be brilliant economists and we may all not have access to the data and to statistics, but we’re all pretty commonsensical and we can see that things are bad out there - our neighbours are losing their jobs, someone in the family has lost a job, we’ve got a mortgage. We begin to worry about that and so we take precautions, we’re more careful. Now that is an utterly rational reaction to a very, very real economic situation. It’s not something we’re imagining, not psychological.

BLASTLAND: Ann Pettifor, who argues that what makes a recession better or worse is not psychology but government policy. But the case for the influence of psychology doesn’t depend on people being wrong or irrational. Simply that mood matters. The arch proponent of this idea is Professor Robert Shiller from Yale University, whose latest book is called ‘Animal Spirits’, heard here in a lecture at the London School of Economics.

SHILLER: What’s wrong now with the world economy? Very simple: people think the economy is in trouble, so consumers don’t want to spend, they don’t want to put a new addition on the house, they don’t want to buy a new car. And similarly companies don’t want to expand operations, they don’t want to hire new people because it might have to lay them off again. You know things don’t look too good. And so it becomes a self-fulfilling prophecy. Everyone thinks times are bad and so they are bad.

BLASTLAND: Well I’ve escaped from the influence of crowd psychology at least by coming to rural Rutland where I’m talking to Chris Dillow who’s Economics Commentator for the Investors Chronicle and also writes a wonderful blog where he has a great knack of producing illuminating nuggets of data. Chris, the view that animal spirits can drive the economy either up or down, what do you think of that?

DILLOW: It's partly true. If you look at capital spending decisions by companies, it's very hard to explain those without paying attention to business confidence. Similarly, animal spirits seem to matter in the housing market. House price rises tend to follow rises and falls tend to follow falls. But if you look at other aspects of the economy such as consumer spending, this seems remarkably stable relative to the predictions of the idea that consumers are driven by mass psychology. My suspicion here is that consumers in aggregate are far smarter than people give them credit for. If you look at the ratio of retail sales to house prices, this hit a record low in 2007, so it seems as if consumers were hunkering down in anticipation of bad times. And thanks to that hunkering down in the boom, they've been able to smooth their spending here in the recession.

BLASTLAND: What about the psychology of institutions like banks and so on? Can there be a way in which what they think can drive things in one direction or another?

DILLOW: Yes, very much so. The thing about consumers is that there's so many of them that a stupid consumer is offset by a rational consumer. In the case of banks, this is not the case. There's very few of them and most banks seem to think the same. So they made the same mistakes in the boom and they're making the same response to those mistakes now by restricting lending, and this means that in a sense psychology matters more for banks than it does for consumers.

BLASTLAND: I'm back on the Millennium Bridge with Andrew Lilico of the Policy Exchange. You know why we're here of course, Andrew?

LILICO: I do indeed. The bridge here famously swayed when it was first opened because of herding behaviour - the tendency that people have to copy those around them and do much the same kind of thing.

BLASTLAND: And how do you think it applies to the current recession, if at all?

LILICO: Well there is likely to be some herding in financial markets, particularly, at a time of great uncertainty. Because the things that you felt you were able to rely

upon, the solid facts, have suddenly become *less* certain, you're much more likely to think that you can learn from the little things that other people might know and you might want to copy them. Eventually, of course, the fundamentals will reassert themselves, but you can have short-term periods where things move around much in a herd kind of way.

BLASTLAND: I like the contrast implied here: unflappable, measured, public on one hand; twitchy markets and banks slave to their own mob psychology on the other. But I don't quite buy it. I suspect that when car sales fell 25% in a single month, public fear played a part, and that some who run a business might well decide not to hire or invest because they fear there'll be no custom. Between cause and effect is always a human factor.

HASLAM: Michael Blastland. So if we're worrying too much about the recession, has the media done its job well enough? Steve Hawkes, City Editor at the Sun, I dare say you'll have something to say on that?

HAWKES: I was just about to run out of the office when you got to that bit. No, I think there was obviously a lot of controversy over the role the media played, but I think we've learnt as it's gone along but it's been an evolutionary process and I think we've just basically reported what's been going on.

HASLAM: Have you changed the way you run your paper's coverage?

HAWKES: The media became very responsible early on after Northern Rock when there was a big share price fall at Halifax Bank of Scotland on the Friday. The front pages were going to be full of Halifax Bank of Scotland stories and those stories were subtly changed, I think, because papers thought well this could cause another big problem here. If we're irresponsible with this, if we flam this up too much as it were, this could cause a problem. And I think at the Sun it's just been a case of basically informing readers and also try to be (typically Sun fashion) sort of a little bit more upbeat - you know smiley faces in different places and trying to get people through this with a bit of humour as well.

HASLAM: You do have Captain Crunch online.

HAWKES: The Captain, yeah.

HASLAM: Yeah.

HAWKJES: We should have brought him in today. I mean no he's ...

HASLAM: Right.

HAWKES: You'd like him. It's one of those things that I think the broadsheets might sort of smile at, but it has been a major help. People wanted tips on how to save. It's an often overlooked thing, but it was key to people.

HASLAM: I was actually relieved when the news changed a little bit and gave us other things to worry about like MPs' expenses scandal and swine flu. I thought oh phew, I don't have to think about the recession anymore.

HAWKES: Well I think there was a time ... I remember coming in one day and one broadsheet had a picture of bombed out London in the Blitz on its front page and you just think look enough already, you know. Yeah they did want to read something else.

HASLAM: Sheila, does press and broadcast journalism affect the way that consumers feel?

KEEGAN: I think it certainly did at the beginning. We were doing some research around September, October last year and certainly the sort of consumer response at that time was that in a sense the media was creating the recession. Now this was partly because people were in denial at that stage, so they were trying to say it's not really happening, they're overstating it. But it did make people depressed and I think there were criticisms of the language that was used, which was highly emotional at the time - I mean words like 'soaring' and 'freefall' and 'plunge' and 'tailspin'. So

this sort of thing did make people very anxious and it exacerbated their fears about the recession. And mood is contagious.

HASLAM: Well research from BT Business this summer revealed a change in office atmosphere with 37% of UK workers saying sadly there was less laughter in their workplaces and that they had higher workloads. Is that how people are feeling? We got a mixed response when we hit the streets.

MALE 1: I'm now an electronic engineer. We've actually been very lucky, so we've not particularly seen that much of the downturn, so at the moment we're pretty much carrying on as we were this time last year.

MALE 2: I'm a manager in a laboratory. They've increased the workload, they've made us work later, and they've taken away our shift allowance. We're finding it quite de-motivating. We're not getting any incentive apart from it's just making us keep our jobs.

MALE 3: I'm a pharmacist by profession. I'm working a lot harder just trying to survive. Hopefully it will be soon over.

HASLAM: "Hopefully it will be soon over". People working harder, redundancy, switching professions, enduring new shift patterns for less money. Sound familiar to you, Mike Emmott?

EMMOTT: It is familiar, but in fact all our data from surveys of employees tells us that it's remarkable just how positive attitudes continue to be. Yes people are worried, yes they're tense, but actually they're just about as cheerful as they were a couple of years ago. They still say they're satisfied and levels of trust in top management, never very high, have not actually fallen away. It has not taken the heat except in those places that have suffered serious redundancies where I think trust and confidence has fallen away, and it's tough to keep people engaged in that environment.

HASLAM: How long do you think that will continue?

EMMOTT: Now that we're seeing rather more good news stories and slightly fewer bad news stories, I think we're actually probably going to live through this without any serious deterioration in attitude.

HASLAM: Sheila Keegan, do you see a positive outcome in the way that people are dealing with each other as we go forward through this recession?

KEEGAN: I completely agree with what Mike was saying about a different attitude between management and workers, if you can even call them that anymore; that people are working together on the same side, which is quite different than you know the work we did in the last recession where it was a much more confrontational situation.

EMMOTT: It's all about is management believed when it says, "Look guys, we're backs to the wall. There's no way out without a bit of pain all round". If they're not believed, then it gets thrown back in their face; and by and large they're getting believed.

KEEGAN: And I think there are some people for whom this is really an opportunity - who've been wanting to travel, they've been wanting to do something different and it gives them an excuse to do it.

HASLAM: Credit crunch.

KEEGAN: (*laughing*) Yeah, so there are positives as well.

HASLAM: Well if, like me, you want to try and think your way out of the recession, then you could do worse than put your faith in a trusted survey out this month from BDO Stoy Hayward that said it'll all be over by the end of September. And who knows what could happen if we just put our minds to it? Time to say thank you to our

guests: Steve Hawkes from The Sun; consumer psychologist Sheila Keegan; and Mike Emmott at the CIPD. For more information, there's the BBC Action Line - 0800 044 044 - and our website, bbc.co.uk/moneybox, where you can listen again and send us your thoughts and comments. This time next week Paul Lewis returns with another Money Box Special about coping with the recession and property. Today the producer was Kirsteen Knight and I've been Penny Haslam.