Question
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YOUR MONEY

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Living Beyond Our Means

The terms "credit crunch, sub-prime mortgages, housing bubble" have been heard a lot lately. Questions of liquidity and financial turmoil have been hot topics in the media as focus has inevitably turned to the stability of the worldwide financial system. We've had turmoil in the markets and investor confidence is at an all-time low. Did this problem appear out of the blue, or has it been brewing for a while?

Our parents and grand-parents were taught to work hard and pinch their pennies. When they wanted something, they saved for it. Borrowing was frowned upon. Perhaps wartime thrift instilled these values, assisted by the absence of loan products. Whatever the case, those spending patterns changed and, in my opinion, a serious financial problem began to sprout.

Charge cards were generally introduced to society in the early 1950s starting first with oil companies and department stores. As more people accepted the idea, so too did other businesses. It wasn't long before the banking sector caught on and began offering more lenient mortgages and credit loans. Retailers began offering "pay now, worry later" sales campaigns.

Sadly, society was bombarded to such a point where it was accepted as the norm. Plastic was the new craze and people grew comfortable with the idea of debt. More recently entire homes were being bought for zero-down, many of which are now in foreclosure.

Easy credit has created a mess. Canadian household debt is at an all-time high, reaching $1 trillion in 2006. For 30 years its annual increases have outpaced personal disposable income, assets and the GDP. 28% of Canadians feel that their debt negatively affects their ability to reach retirement goals while 25% don't commit to any kind of saving, *not even for retirement.* Incredibly, 20% are cashing RRSPs for day-to-day living expenses. (Data Source: CGA-Canada)

Examining the credit crunch from a macro viewpoint, I can't help but conclude that our society has succumbed to a marketing machine that has both banks and retailers promoting the idea of "Get it now and pay later." And why not push the idea of paying later? There is a lot of money to be made by issuing credit. Fees and interest penalties quickly add up, turning into extraordinary profits for the issuers. Unfortunately the flip side is a huge debt load for the user. Was the proliferation of credit availability brought about by corporations seeking profit? Perhaps. As economist John Maynard Keynes once said, "The engine which drives enterprise is not thrift, but profit".

Whatever the reason, it is time to take a hard look at our spending habits. Do we really need to keep up with the Joneses. Would we be happier if we kept our heads afloat and didn't have a dark debt cloud lingering above? I believe we would all be a lot better off if we reined in our spending and took a lesson from the philosophy of our predecessors.

If you are under forty you should have established a retirement savings regimen. If you are over forty you should *now be increasing your retirement savings.* If you are one of the people using credit to "acquire now, pay later", I urge you to stop for a moment and contemplate this question seriously: "How will I accomplish retirement goals if I continue committing as yet unearned income to servicing debt?"

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