

village view

by Andrea Leonard

Are you in debt? Most of us are, of course. We owe the bank for the mortgage on our house, car payments, and perhaps for a personal loan. We owe the utilities for last month's electricity, heat, and telephone and we owe for purchases made on various credit cards.

Many of us are paying now for Christmas gifts we bought last December, for vacations we took last fall, for entertainment long since forgotten.

In fact, if you're not among those buying on credit, you're practically a second-class citizen. If you apply for a loan and haven't credit references to offer (and that means a list of people or companies to whom you owe money), you're apt to be turned down as a "poor risk".

One of the factors economists use to gauge the health of the American economy is the amount of debt we're carrying; according to their views, the more we charge, the better off the nation's economy appears to be. When we pay off debts faster than we assume new ones, the economists view the situation with alarm and believe a recession is setting in.

What actually occurs, of course, is that when we don't charge more and more, unsold merchandise piles up in stores, unsold autos clog the car lots, and it appears the economy is slowing down.

Apparently no one conceives of the possibility of buying

just as many things and services, and spending just as much money-- on a cash basis. The nation's population has grown 44% since 1950; installment debt, however, has multiplied more than 1200% and today totals \$179 billion-- not including home-mortgage debt.

In some parts of the country you can use a credit card to pay for evening courses or to pledge financial support to your church. Among other things, you can pay your rent, buy ski-lift tickets, gain admission to nudist camps, receive birth-control counseling, pay for a funeral, or gamble at the tables in Las Vegas, all by showing your charge card.

It seldom occurs to economists or the more than 40 million holders of credit cards that the same amount of purchases might be made, and the same amount of goods might be sold, if people paid cash for the things they bought.

The obvious conclusions economists reach is that if people can't or won't assume installment debt, they aren't buying. This isn't necessarily the case. If more of us operated on a cash basis, we could buy alot more than we do.

Buying on the installment plan costs from 12 cents to 24 cents on every dollar that remains unpaid after thirty days. If you carry a monthly debt averaging \$500, interest payments costs average at least \$75 a month, and in most cases more.

Well over a billion and a half dollars in purchasing power would be added to the gross national product if Americans paid cash for purchases!

Psychologically, however, the mere possession of a charge card is greater temptation than most can resist. Once that small plastic rectangle resides in the wallet, to leave it there, unused, seems absurd.

On the other hand, let's look at what benefits may accrue if we exert enough self-control to use it only for purchases that can be paid for during the initial billin period.

Suppose you need a new refrigerator; they do wear out every ten or fifteen years. A new one can cost up to \$700, and if you purchase a large frost-free side-by-side freezer, an ice-maker and other deluxe features, you may not have the cash for it unless you've planned ahead to replace your older one.

Even if you settle for a less expensive kind, you'll probably spend close to \$500. Carrying charges if you buy it on the installment plan will cost \$12 a month, per hundred, or \$60 the first month. As you pay it off, the carrying charge will be lower, unless you make additional installment purchases before completing the payments on the refrigerator.

If you did pay cash for it, that \$60 you saved the first month you could spend for something else, or leave in the bank to earn interest.

There are, of course, times when borrowing to buy things you need makes good sense. Few of us can purchase a home

with cash-on-the-barrelhead. Furthermore, in our inflation-ridden society, residential real estate tends to appreciate faster than inflation, so a home mortgage is usually a good investment of interest-money.

When the mortgage is paid off, experience has shown, the value of our home has increased to more than the extra dollars the initial cost of the house, plus interest paid on the mortgage, totalled. Additionally, the amount of interest paid each year has been a deductible item for our income tax returns.

While this is also true of interest on installment loans, the tendency most of us have is to over-extend our ability to repay. Many of us find ourselves in financial difficulty because we've been unable to resist saying "charge it" when making a purchase. The little ones add up to bigger and bigger interest costs, and the family income, as the bills roll in, fails to cover the debt-payments.

Only about a third of all credit card holders pay their bills within the initial billing period and avoid the 18% interest banks levy on customers who spread the payments out.

That means the vast majority of Americans are, indeed, in debt-- debt they could avoid by planning ahead to meet their needs. The money they now pay in carrying charges, they could use to purchase other things they might like to acquire.

Planning ahead is no more difficult than meeting the installments on charge accounts. Suppose you have \$3,000 in the bank at the time your present car gives out. With the trade-in, you can pay cash for your new car if you come up with \$2500.

You can take the \$2500 from savings, acquire the new car, free and clear, and instead of making installment payments on your car loan, arrange with your bank to deduct, automatically, \$100 a month from your checking account and credit it to savings.

At the end of two years, you'll have replenished the \$2500 you withdrew; the account will have earned interest on the money during that time; and at some later date, when your new car must be replaced, you'll have cash-in-the-bank again to repeat the process.

The same sort of arrangement can be made for replacing household appliances, for vacation expenses, for any major expenditure you can foresee. You can still cart your charge cards in your pocket. They come in handy in emergencies when you need money you're not carrying on you, and you can repay it before interest charges accrue.

It is really just as easy to meet the "expense" of laying-by \$100 a month in automatic savings as it is to pay \$100 a month to pay off an installment loan. And you will come out, in the end, a great deal better off than your neighbor who is unable to resist making purchases and charging them on his credit card.

Try it and see!