



## *DEBT TRAPS ARE BIGGER THAN MOUSE TRAPS*

North Coast Citizen \* 16 November 2006 \* © Tom Bender \* <[tbender@nehalem.tel.net](mailto:tbender@nehalem.tel.net)>

The cost of debt is huge, but we're trained to ignore it. Do you know how many years' income you will spend on your home or car loan before it's paid off? How many years of work you'd have saved with a smaller house or car, paid off more quickly?

We're deluged with advertising to increase our outflow into other people's pockets. "Zero money down"? Great, until "down" becomes "out". Big print on credit card offers sound great. But the small print often ends up costing us 20-30% interest - on everything we charge, not just our balance. High school graduates are deluged with credit card offers (or get equally big student loans) so they start out with both feet in the debt trap.

20% of all family, business, and government expenditures go to the cost of borrowing instead of paying when we buy. That's up to 10 years of our lives just to make bankers rich. Some borrowing is needed, but a lot is pure laziness and brain-washed thinking. Take Oregon highways. The state takes in a certain amount every year from gas taxes, and pays out the same monies for highway maintenance. Revenue-financed. Makes sense. But then someone smart in the legislature (a banker, maybe?), said, "Let's set up a highway trust fund". Borrow money to fix the highways!

Umm . . . what about paying it back? Ends up costing twice as much – the repairs, plus as much in debt service over 20 years. And harder to pay that off while paying for ever ongoing repair needs. So we borrow more, caught in the debt trap.

Hooray, though – we've got the NBWA! Our sewer district had a huge debt, of course, when it was set up. But they decided to pay it off and stay out of debt, to budget and save for upcoming expenditures. Good job! Compare to other agencies, with ongoing capital expenses, that borrow to pay them, and pay on 20 years of debts every year.

What do we get from debt? Our foolish economic theories say we get the use of the car while we're paying for it. But they're hiding the whole story. Financing a car means we probably end up financing the next, and the next, cuz we're always busy paying off the old loan instead of *saving* (what's that word??) to buy the next one. So we buy 10 cars over our life, and pay interest for 50 years. Change just one thing - how we

got the *first* one. Go without, walk, use the bus or a friend's car, or buy a real junker the first time, then save to buy each car. We would be saving and *receiving* interest all those 50 years. Money ahead, rather than behind. The inconvenience cost was 1/10th what the economists say, and savings about 15 times as great.

What's it cost to buy things different ways? Using credit cards, with a balance, maybe 18% interest, plus 2-2.5% for merchant fees, plus 20% or more for income taxes on the money we used. Using a debit card, no interest fees, but still merchant fees plus 20% income taxes. With ATMs, and average \$50 withdrawals, fees might be 3%, plus 20% income taxes. Paying cash, only the 20% income taxes. Barter eliminates that 20% cost. And giving time and stuff back and forth, there is a "feelgood" *gain* instead of cost. If we share fun work with others, "feelgood" gain increases significantly. So "money" costs can range from a *cost* of 40%, to a *benefit* of probably a similar amount. Put that another way. With just a wee bit of attention to how we use money, we'd have a day off a week to go fishing! Or save the world.

How to ease out of the debt traps? First, decide to do it. Start with two credit cards - one only for purchases you're going to pay off each month, so you don't pay interest on everything. Go down to our local TLC Credit Union in Tillamook and get their flat-rate 12% credit card. They'll also help you review your credit. Check out interest rates on an equity loan rather than using 18% credit cards with ongoing balances. Tell your city, county, and districts governments to budget and save, not borrow. Pay cash. Trade time, energy, and stuff with friends. Set up a personal finance course at the high school. Join our new Housing Trust. Pass a "no unfunded mandates" law to prevent budgetary surprises for our communities.