

TENTMAKERS

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BUDGETING FOR DEBT

by Gary North

"Forgive us our debts," Calvinist Presbyterians say when they recite the Lord's Prayer. "Forgive us our trespasses," say Episcopalians and Lutherans. The Calvinists originated in Scotland, the Netherlands, and Switzerland. Their version of the Lord's Prayer reflects this cultural heritage. Debt is a great trespass in these cultures. They much prefer to lend. What is hard for them to say is the second part of the petition, "as we forgive our debtors." They secretly think, "after at least the principal has been repaid."

It is not surprising that with the decline of Calvinism in the West has come a huge increase in debt—not just emergency debt by the poor, and business debt by the entrepreneurial class, but universal consumer debt, and universal government debt. What would have been regarded as a horror by our great-grandparents in their youth has become a way of life today. The almost universally desired **visible** benefits of consumer debt in the form of fixed-interest, long-term home mortgages—invented in the 1920's—has hypnotized a generation of young families and even their parents. Debt worked for grandpa when he bought that first home after World War II. It worked for dad when he bought that four-bedroom home (by stretching his budget to the breaking point) back in 1974. It must work for everyone. Great-grandpa was wrong. He didn't understand.

No, he didn't. He also didn't understand mass inflation. He never had an opportunity to deal with it until World War I. The wholesale price level in England in 1914 was just about what it had been in 1814. Prices in the United States declined by at least 50%, 1870-1900. The universal lure of fiat money in an age of debtors had not manifested itself in great-grandpa's era of low debt and the gold standard. He never saw the middle classes of entire nations destroyed in an orgy of inflation—or in the case of France, several such orgies.

There seems to be a political rule here: less personal debt, less political pressure for inflationary government policies. Similarly, less government debt, less reason for a central bank to create fiat credit to purchase it.

The Pressure to Stretch

In every normal congregation there are young and old, rich and less rich, the strong and the vulnerable. We assume that the strong are the rich ones, and the vulnerable are poorer, but this is not always the case. Sometimes the rich are not rich—**net**. They are doing everything with borrowed money and hope. They have mortgaged their futures and are exceedingly vulnerable to such catastrophes as a lay-off at work or a long-term illness of either breadwinner—and there are likely to be two breadwinners. These families do not have six months' operating expenses in reserve.

The working poor today are usually just as debt-ridden as the rich, proportional to their income. But a less well-off

indebted worker is usually more flexible in an economic crisis than a rich man who is equally indebted as a proportion of his income. The poor man knows that he lives close to the ragged edge. So do his peers. His peers live there, too. When a poor man stumbles, and is forced to sell his home and rent, he probably rents in a similar neighborhood. Or he buys a used mobile home. He continues to drive the same clunker of a car. His life style isn't completely uprooted. Furthermore, if he finds work after a lay-off, it will probably be work which is comparable to his former occupation, unless he had been the beneficiary of some sort of government favoritism.

Not so when a rich man loses his income and is swallowed up by the debt monster. He may suffer a far greater downward move in visible status, especially if he is older and is unemployable at anything like his former salary. When he falls, the fall is far more visible. It is probably more devastating to his family psychologically.

Normally, most people live within their means, but just barely. They are in debt, but there are limits on it that they recognize most of the time. They keep their jobs. They worry a lot, juggle the bills to see who gets paid first, go into more credit card debt in tight months, and play all sorts of financial games. They get by, but always at high cost. Debt makes them stretch. They get used to stretching, however. Debt isn't a temporary stretch, such as the debt on a new business or business expansion. Debt becomes a permanent way of life.

The payment for this way of life comes from the inside. People live in more comfortable outward environments, but they pay for it with sleepless nights and ulcers. They put up a good front, but inside they live under constant stress. Their outward prosperity is not matched by an inward feeling of calm. In low-debt cultures, such signs of outward prosperity are more closely tied to inner peace because disruptions of a family's stream of income are less devastating in a zero-debt environment. Of course, fewer people proportionately will be able to afford to live in outward luxury. It is more difficult in a zero-debt world to become a member of the leisure class, but more difficult to fall from it, too.

Pastoral Responsibilities

Pastors have a lot of responsibility for the welfare of their congregations. They may be asked to settle family disputes that are at bottom the product of debt and an inability to cope with debt's pressures. They may be asked to study a family's financial position and make recommendations. Naturally, they are seldom asked to make recommendations **before a crisis**. They are asked what to do after a crisis.

How many pastors are equipped to serve as debt counselors? Not many. There are very few professionals in this field. How is a pastor to know what to advise?

Here is something every pastor can do. Call a local bank or retail merchants association. Ask to speak with someone who might know if there is a private non-profit debt counseling service locally. Debt problems are becoming a universal problem. If families cannot meet their payments, the merchants who extended them credit get in financial trouble. This always happens during a recession cycle. In order to deal with this problem, several non-profit debt counselling services have been established regionally. One such organization is

National Foundation for Consumer Credit
8701 Georgia Ave.
Silver Spring, MD 20910

Pastors should write to them and ask for a publications list. (Some are in Spanish.) These should be on file in every church. Deacons should be aware of them and familiar with the main ones. One publication that every church should have is their *Financial Counselling Manual* (\$3.50). They also publish a directory of over 200 affiliated local agencies.

Debt Management

The secret of debt management is not to have any debt. Now, we are all debtors to God, and therefore we are all carrying a load of debt. We are mortal. We are vulnerable to disease and accidents. So our present estimation of our net worth should not assume that we will have a continuing stream of income. That stream of income could be cut off in a crisis. Also, unpredictable major expenses may appear. We need to pool our risks and buy various kinds of insurance. We must reduce our present level of discretionary income in order to buy insurance.

Most households are underinsured. Men rarely have a sufficient amount of life insurance. For example, few households where the breadwinner is under 45 need less than half a million dollars of life insurance, yet very few households carry this much. This is because of ignorance—ignorance fostered by unscrupulous individuals who recommend and sell “whole life” insurance policies. No one can afford half a million in whole life coverage, so agents do not recommend it. They sell all the ignorant buyer can bear—meaning about what a \$500,000 inexpensive term insurance policy would cost. (At \$2 a thousand, the wife of a 35-year-old non-smoking male can buy a \$500,000 policy for \$1000 a year, or \$85 a month. Today, a good term policy for such a client would be under \$2 per thousand.)

Households also are underinsured in other areas. The point is, we are in debt. We assume that good times are perpetual for our families, when the Bible tells us that, at best, good times are only normal for most people, but disastrous for at least some people. Farmers have always known better than to believe in perpetual good times; their sin has been to believe in normal good times, when the good years for farmers are at best about a 50-50 proposition, decade by decade. Modern suburbanites forget too easily that there are any major risks at all.

Budgeting

The way to avoid debt crises for those who play with the fire of debt is by systematic budgeting. Very, very few families have budgets, even rich families. They do not plan in advance for regular expenses, let alone emergencies. They do not budget for annual bills that come due in certain months. They write the bills as they come in, and woe unto the family that forgets that a certain bill was coming due.

Here is a program that is mandatory for churches, and that hardly any church will adopt. Call a special session with the people who write the checks in the families' monthly bill-paying extravaganzas. Ask the attendees to bring in a sheet of paper which records the dollar amount of bills for the previous month, category by category. This will force everyone to consider the possible categories. There can be dozens of them, or less, depending on how someone classifies expenditures. Then, as pastor, go through a “normal” family's budget categories. Use a blackboard or overhead projector. Write down a dozen categories and then have people call out any that you have forgotten. They will build up fast.

Then have each person write down these categories. Allow them half an hour to sit there and enter the actual figures for each category from their records of the previous month. Of course, a lot of categories will not be able to be filled in because no payment was made last month. This reminds everyone of the inevitable (and easily forgotten) bills that will come due. Tell everyone to find out when each non-monthly bill is due, and to begin setting aside money for **each particular non-monthly bill** in a special bank account, if necessary. Even with bank charges being what they are, it is better to have a **future bill-budgeting bank account** that a family can use **exclusively** for the payment of bills that are on the “future bill” budget sheet. Rule: if a bill is not on the sheet, nothing should be taken from this account to pay it. **Ever.** This forces people to be very specific in setting down on paper just which bills are going to come due and when.

Better yet: if your church owns a 2-disk drive IBM PC or Apple II computer, buy a copy of the computer program **Managing Your Money**. You even get a toll-free 800 number to call if you get in trouble running it. It retails for \$195. Order a copy from I.C.E. for \$175. (Specify Apple or IBM PC. Allow a month for delivery.) This is a very good program for family budgeting. It covers everything, and preserves a record of all transactions, including check numbers. Perfect for an IRS audit, if it comes. Have each family buy a \$5 disk and pay the church \$25 to get started with its budgeting. Have a deacon or someone with experience teach both partners how to use it (and pay the deacon \$15 or so for his time). Have them come in once a month and enter the data. Charge \$5 an hour. This is reasonable. Families can more than make up for this expense in budgeted savings. The program has an income tax forecaster built in. It even has a life insurance requirement estimator, which is well worth the price of the program.

This program could also revolutionize your church's budgeting procedures. It will make life easier for anyone who uses it. You can also subtly build in a 10% tithe recommendation for every household budget. That will more than pay for the program.