

The World is Changing

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Think back 10 years ago. Do you remember what it cost to buy a DVD player? We paid over \$500 for one around that time and it wasn't even HD! You probably paid some exorbitant amount for a piece of technology that now retails for under \$100.

Technology is continuously improving, becoming faster, smaller and cheaper. Further, what I refer to as The China Effect has caused the cost of a wide range of manufactured goods to fall dramatically over the last decade or so. With cheaper prices, we can afford more stuff than ever before, while the availability of technological gadgets is ever-expanding to meet our growing appetite.

However, these low prices come with a different cost. As manufacturing jobs are moved overseas, those with previously well-paying jobs on the North American factory floor are downsized and often unable to find another job at the same pay scale. The middle class is shrinking as uneducated workers are squeezed out to low-paying service jobs. Second, the low cost of consumer items doesn't reflect the total cost of production from managing raw materials, to recycling, to properly disposing of pollution and waste. The planet bears these costs as our limited natural resources are being depleted at an alarming rate.

Increasing levels of carbon dioxide choke our atmosphere and trap solar radiation causing the incessant rise of global temperatures. Our landfill sites are overflowing, while billions of scraps of garbage float around in our oceans.

Our economic system is founded on the concept of expansion and growth. Even as we see the limits of what our environment can bear, few have stepped up with any meaningful lifestyle changes. We are instead motivated by own desire to make more money and buy more stuff. Our consumption-oriented society is complicit, pressuring us to buy through advertising, and willingly we oblige. Consumer debt has been consistently increasing over the past 10 years while savings have dropped off. Consumption is equated with the good life while saving is something we can always do later. As for the earth, we'll be gone before the worst is realized so who cares? Surely the next generation will devise some ingenious technological solution that will solve the environmental problems.

To realize how much the world has changed, consider life in the 1950s. A typical household raised 3 or 4 children on the income of a sole breadwinner. Today, 2 parent families living on a single income by choice are a rare exception and often limited to super high-income earners. While we can complain that it now requires dual incomes to raise a middle-class family, the definition of middle-class has changed. In the 1950's, families were lucky to have one TV. Today we have multiple TVs, PVRs, DVD players, gaming consoles, several computers, high-speed internet and the ubiquitous crackberries and iSomethings for every member of the family. Back then, most people had never flown in an airplane. Today, many people fly every year, some multiple times per year. Then, most families had one car; today, a one-car family is an anomaly; even 3 or 4 cars is not unusual.

There is no question that all this technology has opened up amazing possibilities and holds the potential to improve our quality of life. However, the reality behind all this fantastic stuff is that it is not free. Despite lower prices for consumer items than even a decade ago, the average person still spends a huge portion of their income on stuff. Small wonder it takes two incomes to pay for our modern lifestyle and even then many people still can't keep up! By today's standards, the lifestyle of the average family in the post-war era seems quaint and downright frugal. By 1950s standards, I would imagine the average person's lifestyle today would seem like a futuristic wonderland on the outside. A closer inspection however, all too often would reveal a financial nightmare below the surface.

The True Cost of Living is Increasing

However much the cost of consumer goods has fallen, other expenses have been marching steadily higher. The cost of entry level homes has already risen beyond the reach of first-time buyers in urban areas. Gasoline prices are increasing as resources are slowly depleted and we are forced to tap increasingly inaccessible reserves at a higher cost. Electricity is likely to double in price over the next 20 years as aging nuclear power stations are replaced by more sustainable technologies with their own upfront costs.

Home insurance costs are rising as more unpredictable weather tied to global climate change creates more severe storm systems causing more widespread damage. Auto insurance in Ontario is in full crisis mode as rampant auto insurance fraud has resulted in

losses in the billions. Individuals looking for shortcuts to wealth are lying, cheating and stealing while the rest of us are footing the bill with higher premiums.

Students face a daunting obstacle of prohibitively high tuition fees that leave them strapped with massive debt at graduation. The unemployment rate for people under 30 is significantly higher than for older age groups, leaving many new graduates without a job that pays well enough to pay their loans back.

In an attempt to avert a global financial collapse, governments around the world including Canada infused their economies with massive economic stimulus packages. The legacy of that overspending will be felt for at least the next 5 years as our government has a plan to balance the books by 2016. This is of course assuming we don't face another financial crisis over the next 5 years that necessitates further spending. The likely outcome is higher taxation and/or a reduction in government services over the next 5 or more years.

Thanks to the post-war baby boom, we are facing unprecedented challenges in providing for an aging population with a shrinking workforce. As governments grapple with the challenges of making ends meet, one increasingly unavoidable outcome is that the age of the retirement benefits CPP and OAS will rise to 67. If you want to retire early, expect to pay your own way even longer before Ottawa will give you a helping hand.

Striking a Balance

More people are drawing the conclusion that the lifestyle they want is out of reach. Instead of living frugally to save their money, many have given up. Their attitude is, "I'll never be able to afford this so I might as well buy it now". High consumption and no savings have led to increasing levels of consumer debt and apathy toward paying it off. Instead, carrying debts with minimum monthly payments has become a significant expense for many families. The combination of rising basic expenses and increased consumer debt has magnified the gap between the rich and those pretending to be rich by living a high consumption lifestyle backed by nothing but debt.

There is no question that modern technology allures with the many amazing things it can do for us. However, if by indulging in these expensive toys, we obligate ourselves to work longer and harder to

pay for it, there is definitely a balance to be struck. We must choose how much of our hard-earned money we want to spend on these luxuries at the expense of our current financial security and our future retirement. Further, with many fixed expenses on the rise, we need a strategy to succeed in our increasingly competitive and expensive world. Please look for my next article, *Prospering in the New Economic Reality*, for practical suggestions at three different stages of life: young adults, middle-age families and older adult years.



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