

# Viewpoints

## We need to stop digging and tighten our belts

**L**ike most people, I have made my share of mistakes. I usually try to take my mistakes in stride. I learn from them. I try not to repeat them.

I especially hate making mistakes that I should have seen coming. Sometimes, an inner voice speaks to you and says, "If you were prudent, this is what you would do. If you don't, you will be sorry." If you ignore that voice and make a mistake, the mistake is particularly painful.

Lately, I have been feeling that way about the current financial crisis. I should have seen it coming. My inner voice spoke to me several times and I didn't listen. This began at a large Riverdale retailer.

In July, I was at a retail department store on Riverdale. I noticed that they were having a pretty good sale on fitness apparel. Because my gym shorts were getting threadbare, I picked

### Top of Utah Voices



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**Commentary**

up a couple of items. When I got to the cashier, she told me that if I applied for a credit card, I would get an instant credit of \$25. My purchase was less than \$25, so the offer meant that I would get a running shirt and a pair of sweat pants for free.

I'm usually impatient, so I asked how long it would take to be approved for a credit card. "No time at all" was the answer.

The store would grant me credit on the spot. How could I turn that down?

Well, I took the fitness apparel and used it at the gym and on a 12-mile run. I liked it, so I decided to pick up a couple more items. On my return trip, the cashier pitched me the same deal I got a few days before. I told her that I had already been granted the company's credit card, so I would not be eligible for a repeat discount. She told me I was wrong. The company was offering multiple credit cards through different banks. If I applied for a second card, I could get another credit toward my purchase.

You have probably been presented with a similar offer by any number of retailers. Something is wrong with this picture. Retailers are giving away free merchandise and granting credit to people with only a perfunctory application.

I started to think about this. Each week, I was receiving two or three letters telling me that I had been pre-approved for a credit card with a credit limit far larger than I would ever use. I also received a phone call from Discover Card asking me why I wasn't using my card more often. Didn't I know that I could satisfy my desires by using my Discover Card?

These events should have told me that something was wrong with the way the country was dealing with credit. You wouldn't need to know anything about subprime loans, credit swaps or derivatives to feel that something was amiss with the way people were using credit.

My inner voice was talking to me. As an economist, I should have had enough sense to check some data.

The average annual wage in Utah is approximately \$35,000.

The average home price in Utah is above \$250,000. People making \$35,000 a year are going to have a tough time making payments on a \$250,000 house. You would find a similar pattern in many other states. You would not have to contemplate these data for very long to figure out that lots of people were buying houses they could not afford.

Now that the country is in a financial mess, what should we do? One answer lies in the old axiom, "If you find yourself in a hole, stop digging."

As I write this, the clock on Times Square that tracks the national debt just ran out of digits. The current U.S. debt of \$10 trillion is a 14-digit number; the clock can only handle 13 digits.

It may be time for families to tighten belts and start living within their means. It is also time for the federal government to do the same.