The Work-n-Spend Cycle

What was once an oddity of human nature has now become a trait as American as apple pie:

The more money you make, the more money you will spend.

For example, let's aim our money microscope at fictitious couple Bob and Jane Bigwallets. Bob and Jane are doing pretty well, at least in the income department. Between the two of them, they make $100,000 per year. They're making payments on one nice car (hers) and one nicer house. They have $13,000 in credit card debt and $3,000 more in installment loans for some furniture and household items. Bill-paying time isn't terribly stressful for them, but they're not making a lot of headway (or saving much money) either.

This year, though, the Bigwallets were fortunate enough to get 10% raises at work — bringing their total salaries to $110,000 per year. That 10%, though, isn't spendable ... at least, not by them.

The Bigwallets contribute 6% of their paychecks to their 401(k)s, which will leave $9,400 per year. Then, of course, there are federal and state income taxes. After those items, that "extra" $10,000 they're so ecstatic about will really only amount to $6,580.

Here, though, is where money mentalities start to get interesting. If the Bigwallets did a bit of math (which they don't; they do have social lives to tend to, after all), they'd see that their new $10,000 raise would, after taxes and such, break down to an amount of about $548 per month. But — darn the bad luck — that math never gets done.

Instead, both Bob and Jane are now strongly anchored to that $10,000 figure. That, they believe, is what they have to work with. Whatever gets done with the money will be done with that figure fluttering through their minds, rather than any of the correct figures we deduced above.

As you might imagine, the first question passed over the dinner table and its lovely, candle-lit spread is:

"So what'll we do with the extra money?"

In the Bigwallet context, when you're talking money, using the word "do" as above really means "spend." And in the Bigwallet household, there's never a shortage of glossy spending ideas. (Cutting back? Saving? Bah. What would the neighbors think?)

They decide that really, Bob needs a newer, spacier car. Payments for that "spacier" machine siphon up $400 per month of their raise, plus an extra $20 in fuel and $35 in insurance payments. Lately, Jane has been wanting a larger package of cable tv channels and a bigger monthly allowance of cell-phone minutes; those items account for another $75 per month. Their home computer is getting old, too. That is remedied soon enough. Here, they congratulate themselves for "shopping smart" and purchasing a new $1,400 machine on a one-year-no-interest promotion at CPU MegaTown. Out goes another $127 each month for the next eleven months.

Apparently the Bigwallets don't have the time to do it, so let's do a bit of addition and subtraction for them:

	NEW INCOME	NEW EXPENSES
	$400	$400
	$20	$20
	$35	$35
	$75	$75
	$18	$127
TOTALS	$548	$657

Whoops. Looks like the Bigwallets just "raised" themselves into a shortfall of $109 per month.

Like so many families today, with the blink of an eye, Bob and Jane have found themselves the beneficiaries of a pay raise — nothing to pooh-pooh at — but, thanks to that "extra" money (and some poor attention to detail), they're in a worse financial position. This is self-defeat of the highest order, unconscious though it may be. Next thing they know, they'll be either...

1. working harder (more overtime, more sales commissions, or otherwise)
2. praying for another 10% raise next year; or
3. both

... just to keep up with expenses.

To simplify, it works out like this:

[More Money] + [No More Intelligence] = [Deteriorating Financial Position]

Don't believe it? Well, it can hardly get more clear-cut than this: The CFP Board estimates that **approximately one-third of lottery winners become bankrupt.**

(See? It ain't just a tax-hungry Uncle Sam that gets to lottery winners.)

Now, we don't know much about the Bigwallet household. We can assume that in today's world of "You are what you have," the Bigwallets' money behavior is at least significantly guided by competitive spending. (Gotta have what the neighbors, coworkers, and sit-com families have, right?) As Juliet Schor writes in The Overspent American, we tend to spend as those around us spend:

> Once they have it, employees spend their additional income. The imperatives to spend in consumer society are numerous, and the incentives to save are weak. But there is another reason, unique to the work-and-spend dynamic. Rising incomes create social pressures to spend. A more leisured, lower-spending lifestyle does not emerge. Instead, people get more money and put in long hours on the job. As long as a few fashion-minded or highly consumerist households take on the role of innovators, spending their increased income on new, better, or more consumer items, the impact of their consumption ripples through the system. Marketing and advertising accelerate the process. Smiths emulate Joneses, and in turn are emulated by Bernsteins, Vitellis, and O'Rourkes. When the Chens don't want to go along, they are relatively alone — not only alone, but left behind.

She also elaborated on this in her earlier book, The Overworked American:

> Once a pay increase is granted, it sets off the consumption cycles I have described. The additional income will be spent. The employee will become habituated to this spending and incorporate it into his or her usual standard of living. Gaining free time by reducing income becomes undesirable, both because of relative comparisons (Joneses versus Smiths) and habit formation. The next year, when another increase in productivity occurs, the process starts again. The company offers income, which the employee spends and becomes accustomed to.

So how does one get around this problem? Well, the answer lies in two words:

Planning Discipline

If you're the fortunate recipient of a raise, or starting a higher-paying job, or expecting a tax refund, **don't even think of spending the "extra" money until you know exactly how much it will mean to you — after taxes, 401(k), and all that.** Better yet, don't even think of spending the money. Suck it up, and mediate your desires a bit. Use at least part of it to pay down debt. Or do something really novel:
Save it

(No matter what your congressman says, doing this will not send the economy into a death spiral.)

The bottom line? Money is a lot like a feisty indoor pet: Either you keep the house doors closed, or keep a leash on it ... or it's outta there.

And you'll be working like mad just to keep up.

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