Credit cards are killing the american dream

Credit cards are as American as apple pie. It seems that everyone has and uses credit cards every day.

When Americans reach into their wallets at the end of a meal or at the grocery store checkout counter, they are pulling out credit cards more often than they are pulling out cash or check cards. Some say this is just for convenience and security, but the increasing number of bankruptcies and the current credit crisis point to something more serious. Most Americans misuse and abuse credit cards, which causes their own financial downfall. Most Americans are living beyond their means, and they are using credit cards to do it.

In a society that is more focused on instant gratification rather than long-term rewards, people feel the need to make purchases regardless of if they can afford them or not. Every day millions of Americans go out to purchase large ticket items such as televisions and computers. Rather than save up money over time for these large purchases, most people who cannot afford to purchase these items outright use their credit cards to make these large purchases. Other people use their credit cards to pay for daily expenses such as a quick lunch or groceries. Many people, and not just women as one might expect, love to practice retail therapy funded by their credit cards.

A simple purchase can make them feel better after a bad day at work or a fight with a spouse. Still other people just cannot pass up a good sale. Whether it is to keep up with the Jones or just an impulse purchase, the problem is people do not see credit cards as ??? real??? money. Pulling out a credit card is easy; it does not hurt the way paying cash for something does.

When spending cash out of pocket, there is a tangible limit to the amount of money that can be spent; Credit cards do not have this tangible limit. Without limits, people spend more than they can afford as well as more money in general.

The majority of Americans do not have the financial discipline to own credit cards. If a family can pay their credit card bill in full when the bill comes in at the end of the month, then there is no harm in owning credit cards. The problem is either most Americans cannot afford to pay the full ill at the end of the month, or they lack the self-discipline to do so. In 2007, 46. 1% of families in the United States who own credit cards were carrying debt (Bucks, et al.

, 2009). This means that almost half of all Americans who own credit cards are not paying the bill in full at the end of the month. Not paying a credit card bill in full at the end of the month leads to finance charges. Not paying a credit card bill on time leads to late fees added to the existing balance. A balance that exceeds the card??? s limit leads to over the limit fees. On top of all of those fees, many cards charge annual fees just for owning the card.

All of these fees on top of unchecked spending lead to the major debt load that the American people are carrying. The average amount of debt load per credit card the average American family has is $7, 300 (Bucks, et al. , 2009). As of March 2010, 98% of the total United States revolving debt of $852.

6 billion was credit card debt (The Federal Reserve, 2010). According to a January 2010 survey by CreditCards. com then national default average in the United States was 27. 88% (CreditCards. com, 2010).

This shows more and more Americans are creating more and more debt for themselves that they cannot afford to pay off. This debt is piling up, causing emotional strain on families and financial ruin. By using credit cards to pay for purchases consumers end up paying more than using cash to make those same purchases. In a study by Darzen Prelec and Duncan Simester at the Sloan School of Management at the Massachusetts Institute of Technology, they discovered that people were willing to pay up 113% more for sporting event tickets if they could pay with credit cards as opposed to cash (Prelec & Simester, 2001). This study showed conclusively that people are willing to pay more for something when they can postpone paying the bill.

This situation happens every day in the real world. Another way that credit cards cost more is by making minimum payments. Many Americans make only the minimum payments on their credit cards each month. Making the minimum payments means taking longer to pay even small purchases off.

The longer it takes to pay a purchase off the more the consumer ends up paying in interest to the credit card company. For example, a consumer purchases a 56-inch plasma television for $2, 500. The consumer uses a credit card to purchase the television. If the consumer pays the minimum payment of $50 a month on the card, the television would take the consumer 28 years to pay for in full. If that credit card had an interest rate of 18%, at the end of 28 years, the consumer would have paid $5, 897 in interest alone.

This brings the total cost of the television to $8, 397. Credit cards end up costing consumers more money than if they had just paid cash in the beginning. Americans want what they want and they want it now. Society supports instant gratification and credit cards can facilitate that for many. Keeping up with the Jones has become a way of life, financed through credit cards.

Buy now, pay later has become the mantra of the American financial system. Unfortunately, this is leading to more and more bankruptcies and the financial ruin of many families. The irony is that many of these families were trying to use their credit cards to obtain the American Dream. Every day credit cards are costing families all over this country the American Dream. Referenceshttp://www. federalreserve. gov/pubs/bulletin/2009/pdf/scf09. pdfhttp://www. federalreserve. gov/releases/g19/20100305/