Remedies for Deficit Living

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Making End$ Meet

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Since teaching the first Quicken class at Whatcom Community College in late January and early February, I have have felt provoked to contemplate and address the phenomenon of what I'll call "Deficit Living."

In the context of the Quicken class, the issue arose as I was explaining how the core or the backbone of Quicken consists of two lists: the Accounts List, and the Category List. In an ordinary accounting system, these two lists are combined into one – the Chart of Accounts – but in Quicken, they're separate. One would think that this separation might help users maintain a vital and obvious distinction; ironically, it doesn't.

The Accounts List consists of assets and liabilities, while the Category List consists of income and expenses. Since a surplus occurs when income exceeds expenses, and a deficit occurs when expenses exceed income, Quicken is ideally suited to help people know which of the two situations is happening to them, and to what extent.

Ironically, however, what normally happens is that Quicken users will under-use the Accounts List, typically using it only to track a checking account, and over-use the Category List, setting up expense categories for things which are actually assets or liabilities.

Indeed, flaws in the "canned" category list provided by Intuit indicate how pervasive this tendency is. For example in the "canned" list one will find "expense" categories for IRA (Individual Retirement Account) contributions. Obviously an IRA is not an expense, it's an asset – a pivotal one, really, since a major purpose of the whole budgeting and accounting exercise is to afford retirement, most people's largest financial goal. Other errors like this include setting up "expense categories" for things like credit card, mortgage, or car payments; transfers to or from other accounts; money lent or borrowed; etc.

So to ascertain whether one is experiencing a surplus or deficit, it is vital to set up records properly, to distinguish between assets and liabilities on the one hand, and income and expenses on the other. Surpluses cause net worth to grow, while deficits cause it to shrink. Surpluses cause abundance; deficits cause dissipation. To under-use accounts and over-use categories blurs this distinction, frustrating comprehension of this vital cause-effect relationship.

This is the focus of the Quicken course: to help people learn to make this vital distinction.

Every version of Quicken that has ever been produced, going back to the DOS days, will make this distinction. However, Intuit, like the rest of us, needs to make their ends meet too, so every year they must devise a reason to buy a "new, improved" upgrade that looks more cute, or will track investments in great detail, or will (supposedly, but not really) automate bookkeeping by downloading transactions from the Internet, or build our self-esteem by flattering us when we reconcile an account.

Regrettably, an unintended consequence of these "improvements" is to let the tail wag the dog, so to speak; Quicken becomes so featureful and complex that users become distracted or diverted by these features from its main purposes and benefits: to set, pursue, and accomplish goals, and to measure the surplus or deficit, which cause net worth to change. They come to the class expecting to become “Quicken experts.” I have to remind them that they are the masters and Quicken is the servant, not vice-versa; they are not obliged to master every feature Intuit throws at them; the goal is to identify the few key features in Quicken that will really benefit them, and ignore the rest.

The end result is, people become mesmerized by what I call “gee whiz improvements” and become lulled into Deficit Living, unaware of their surplus or deficit since they're not tracking it right . . . to such an extent that Intuit has spun off an entirely new profit center to finance the resulting deficits: Quicken Loans.

So there is a brief description of the phenomenon of Deficit Living in the context of the Quicken accounting program.

But Deficit Living is a larger issue, and I am noticing how the Quicken experience may be understood as a sort of icon, or metaphor, for many other areas of life.

For example, right now I am reading a couple of classics in personal finance: Your Money or Your Life by Joe Dominguez and Vicki Robin, and its sequel, Getting A Life by Jacqueline Blix and David Heitmiller. These books were written in the early and mid nineties – before Quicken became so fancified - and they do a marvelous job of staying focused on the surplus/deficit issue, helping people reach “FI” (Financial Independence, Intelligence, and Integrity) and avoid the rat-race.

Your Money or Your Life deals not only with the hard financial calculations involved in reaching FI, but also the softer, more human considerations – which, it turns out, are the real causes of our economic results, for underlying every financial transaction is a human story and motive: motives like esteem, acceptance, fear, and love. It addresses the phenomenon of clutter – not just spacial clutter, but also financial, relational, mental, visual, aural, and emotional clutter – not to use money as a pretext for preaching, but to show how economic results are really the effects of deeply rooted, easily overlooked human motives. By recognizing the motives, we can gain control over our economies and reach FI much earlier. It's about treating causes instead of symptoms, about real healing instead of band-aids, crutches, and anesthetics.

In my personal life, I don't mind admitting that one human motive with which I am currently struggling is fear – not so much in myself, but in the way it affects my relationships. We all have fears, many of them valid and objective; yet to live in a state of fear is self-defeating and disabling. It warps and limits perception, results in fight-or-flight behavior and tunnel vision, curtailing opportunities and possibilities. It constrains productivity and increases expenses, causing Deficit Living. It impairs imagination, resourcefulness, creativity; it erodes health by raising blood pressure, disrupting sleep, and so on.

Fear disrupts relationships insofar as it manifests indirectly; it's a veiled emotion, an embarrassing emotion; no one likes to admit they're afraid, for fear of seeming cowardly; so it can manifest as deceit or hostility, and it takes a while to peel away such symptoms and discover their true cause. I don't know about you, but I feel a much different response to afraid people than I feel to deceitful, hostile people. Toward deceit and hostility, I want to defend or retaliate, or even attack; but toward fear, I feel sympathy and compassion. I want to understand, to relieve. What a huge difference a little understanding can make.

A great example of this in international relations is our relationship with Japan. The Japanese were afraid of starvation so they practiced deceit and hostility, hence Pearl Harbor, the atom bomb and all the rest. My son lives in Oahu; whenever I visit the Arizona memorial I wish more attention were devoted to the real motives behind the war, not so much on the gee-whiz aspects of the military technology or the bare fact that the Arizona is an underwater tomb.

Ironically, after failing to take Hawaii by force, the Japanese have succeeded in taking it through peaceful means, through commerce and tourism. Now when one visits the Arizona memorial, one often finds one's self surrounded by peaceful Japanese people, who also wonder and grieve at such an unnecessary tragedy, a case study in misunderstood fear.

And of course then, as now, in any war the entire country suffers a massive deficit, for war disrupts productivity and increases expenses. It's the ultimate macro-economic case study in Deficit Living.

Personally, I have the benefit of having been in the Boy Scouts, where we learned a lot of basic skills and that everything we really need to be happy fits in a backpack; and of having served in the military, where we were trained to stare death in the face, to set aside concern for our own well-being at all and march into battle, fully prepared to die for a higher cause. Such experience, I am now realizing, results in incredible relief from a lot of fear that people who have not had such experiences routinely suffer. (This relief is, for example, what enables me to accept with little or no anxiety the risk and uncertainty of self-employment.) So I have trouble wrapping my brain around most people's everyday fears; yet I find I must. It's a struggle.

(Fear even afflicts the very wealthy. One of my clients, who enjoys an incredible, high six-figure income and is worth several million dollars, confided to me over lunch that what motivated his success was fear – fear of failure. He became a workaholic because he was terrified of afflicting his family with the poverty he had known as a child. So in his case he had used his fear, as a soldier does in battle, to energize himself. However, it also made him manic and compromised his health. After I wrote a plan for him, he says he stopped fearing and learned to relax, now that he had positive goals on which to focus his attention and had learned how much was "enough.")

But back to the matter of Deficit Living: we're surrounded by it. It is our element, as water is to a fish. It is so pervasive, we don't even notice it. Intuit sells us accounting software explicitly designed to save us from Deficit Living, yet also markets a loan program to finance our deficits. Federal, state, and local governments, public education and other institutions, routinely incur deficits. Families live, sometimes for generations, under deficits, routinely funding them with real estate inflation, endlessly refinancing their mortgages to raise new capital to afford them.

One client told me that over her childhood, her father refinanced their mortgage eighteen times. She didn't even know until she had reached midlife adulthood, that this is how her family made ends meet; yet the unspoken lessons and examples she had learned, the habits she had learned as a child, of becoming accustomed to Deficit Living, affect her to this day; she must continually struggle against them, to re-train herself if she is to have any hope of enjoying relief from Deficit Living and reaching FI.

Once one resorts to real estate equity to afford deficits, Deficit Living can become not just a lifestyle, but a trans-generational legacy of entitlement, dissipation, blindness, and ingratitude because there is such a long-term and indirect relationship between the sources and uses of funds. In my client's case, she did not understand how her life was afforded until it was half over, putting her at an incredible disadvantage, imposing an almost crippling handicap.

Last year I learned from a local estate planning attorney that the one thing most lacking in estate planning is children's economic education. Parents are diligent to buy insurance, to establish trust funds and trustee relationships, but the one thing they fail to do is equip their children to handle the wealth. Consequently, according to this attorney, the children are spoiled – both quantitatively, and qualitatively.

The result? Dissipation. Deficit Living. Children squander their inheritances, and ironically, allow the money to ruin their lives, succumbing to the fate described in the classic Blood, Sweat and Tears song, “God Bless the Child”:

“When you've got money,
You've got lots of friends
Comin' 'round your door;
But when the money's gone
And all your spendin' ends,
They don't come 'round any more . . . .”

Perhaps you may have noticed my new motto, “Imagine Wellness.” I adopted it after recognizing that we are so surrounded by pathos that it seems normal. Having devoted the previous four pages discussing the pathology of Deficit Living, allow me to now briefly prescribe its remedy.

Remedies for Deficit Living

- Account properly for assets, liabilities, income, and expenses. Study financial statements regularly to identify your surplus or deficit.
- Make a long-term plan and shorter-term budgets to support it. Track the budgets regularly.
- Insist on surpluses. Recognize where deficits lead, how they can become destructive legacies. Be patient, kind, compassionate, understanding, and firm, but don't tolerate deficits. Make necessary adjustments.
- Recognize that under every transaction is a human story and motive. Function at that level, in the depths of human motives. Deal with causes, not symptoms.
- Be a life-long learner. Read books like Your Money or Your Life.
- Understand yourself. Understand your own motives, what really makes you tick and undertake the transactions that constitute your economy. Keeping a journal helps.
- Recognize that, as President Roosevelt once said, the only thing to fear is fear itself, for it cripples, blinds, and sickens.
- Recognize that all we need to be happy fits in a backpack. The rest is optional luxury. Such recognition is a huge anxiety-reliever and perspective-restorer.
- Get help if you need it.

I hope this article has been helpful; please use it in good health. Imagine wellness.

Respectfully submitted,

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