

Dickens for many of us will always be associated with Christmas and one of his characters, Wilkins Micawber, in David Copperfield, is often quoted when it comes to money matters. He is famous for frequently asserting that "something will turn up." He is also known for his assertion: -

"Annual income twenty pounds, annual expenditure nineteen pounds nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."

In "old money" (or real money as some of us oldies still refer to it,) prior to 1971 six(old)pence was equivalent to 2 and half new pence and a shilling (12 old pence) is 5 new pence.

This saying is particularly appropriate this year as almost everyone and every country around the World is looking at debt. The problem when reading or hearing of millions, billions and trillions of pounds of debt is its very hard to get to a realistic understanding of the sums involved but looking at the UK, let's scale down the figures and imagine it's just one family's financial situation.

The UK Governments' income last year was £589,000,000,000, (five hundred and eighty nine thousand million pounds!) Let's take off seven noughts, i.e. imagine the UK/family's income is £58,900. On the same basis the following figures, provided by Invesco Perpetual, may amuse you: -

Income £58,900
Spending £71,000
New debt £12,100
Amount already owed £90,920.

See the problem? The bigger the debt the more interest and higher capital repayments the "family" must pay and that increases the "family's" expenditure. However, they are already spending £12,100 more than their income, so the debt will simply get considerably larger and larger every year, which cannot go on indefinitely!

What would you do if this were you? The only solution is to cut spending or increase your income or both, and that is what *any* Government must do, simple Micawber economics, but on a giant scale. Going bankrupt is not an option, we would all lose everything!

Incidentally, on the same scale planned spending cuts amount to £2,200. At this level it still means our debts are increasing at £9,900 a year, one could easily argue that we have not cut our expenditure enough!

I hope the above shows the Government's problem in a simple way. We as a country have been and continue to live beyond our means and until we, as a Nation, have more income than expenditure then Mr Micawber's world of happiness will simply not be possible. Recovery will take time and be painful; no-one wants spending cuts or to be taxed heavily but what's the alternative, hope "something will turn up."

IFA's don't have any alternative "pain free" solutions to debt I'm sorry to say, the Citizen's Advice Bureau is much better at that than we are, they help people with debt problems every day for free. We can however help "families" in many ways for example: - minimising tax liabilities and selecting investments that are right for these times to name but two.

Have a Dickens of a good Christmas from all of us here at the Independent Financial Advice Centre to all of you and your families and let's all wish for a prosperous and healthy New Year.