



## The Role of Credit in Today's Economy

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Embracing Choice and Flexibility Over Judgment and Recognizing the Perils of Revolving Plastic

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Imagine owing \$6,000 in credit card debt and paying interest for every swipe or tap, from that cup of coffee, trip to the grocery store, or much needed vacation. This is the average household and why U.S. consumers owe \$1 trillion in outstanding credit card debt.

Don't get me wrong, access to credit is essential. It can mean the difference between financial security and struggle. Credit drives economic growth, and enables people to maintain a higher quality of life, from purchasing a home to obtaining skills that lead to higher wages, even financing a computer for college.

The ability to borrow makes it possible to purchase goods and services without having to pay for it all up front. In turn, people are able to better manage their cash flow and budget by matching their consumption with income over time, providing opportunities to invest in themselves and their families. If the American Dream is about having an opportunity to succeed, access to credit is the push that helps people climb the hill.

But, like any powerful force, credit does have potential downsides, especially if misused. And, as Ray Bradbury once said, "too much of anything isn't good for anyone."

So it was no surprise that a recent survey that found the increased usage of credit – specifically buy now, pay later (BNPL) – to cover everyday essentials was met with such swift condemnation. Consumers using BNPL for groceries is a "worrying sign" for the economy, some knee-jerk reactions noted, conveniently ignoring many macroeconomic indicators released seemingly daily, or the [roughly \\$1 trillion in outstanding credit card debt](#) owed by U.S. households. This amount is more than the combined market values of the four largest U.S. banks.

It's hard to argue against Bradbury that "too much of anything isn't good for anyone." Unfortunately, the level of household indebtedness is not only good for many credit card issuers, but effectively how they are designed.

Credit cards enable consumers to borrow from a revolving line of credit, so long as consumers continue to make at least the minimum payment each month (which many do and is typically 3% of the outstanding balance or \$30). If the consumer pays off their balance in full, they aren't charged interest, and are known as a transactor.

Sounds great doesn't it? It would be.

However, most U.S. households are not transactors, but revolvers. This means they carry a balance from one month to the next, racking up interest on all outstanding transactions, including groceries. Indeed, nearly half of Americans and a [majority of Gen Z \(61%\) and Millennials \(53%\)](#) use credit cards to cover everyday essentials, and most U.S. consumers live paycheck to paycheck.

For those struggling to make ends meet, especially in today's challenging economy, using a credit card to purchase groceries can end up becoming an ever-increasing burden on consumers.

Credit card issuers primarily do not earn profits from transactors (unless they're cross-selling services or earning other fees). The main incentive is for consumers to carry a balance from month to month, which enables the compounding of interest into principal. Ultimately, this transforms credit from a powerful tool for consumers into a ball and chain.

So how is BNPL any different?

For starters, BNPL does not compound interest. Moreover, if the BNPL provider does not charge late fees, deferred interest, or any other hidden charges - which is the case for some (like Affirm) but not all providers - consumers do not owe a penny more than what they agree to at checkout.

To suggest that using buy now pay, later for groceries is irresponsible or perpetuates revolving debt cycles ignores the reality of how the credit system actually works for many people today.

Credit is a vital component of our economy, especially now. At the same time, we need to recognize that not all forms of credit are created equal, including buy now, pay later. Just as consumers make their own choices for what they decide to purchase at the grocery store, which has resulted in an ever-increasing number of healthy options, they should enjoy a similar level of choice and healthier alternatives for how they pay over time.