History shows us that we should not be overly concerned with the recent growth in consumer credit.

With the economy now in recovery in the aftermath of the Great Recession, consumers' use of credit it once again on the rise. **Thomas A. Durkin** *looks at whether or not we should be concerned with this resurgent growth in consumer credit. He argues that while some consumers do have debt troubles, the growth in the credit using proportion of low income consumers has been small since the 1960s. As was the case in the past, the bulk of outstanding consumer credit is currently owed by those with higher incomes.*

A news release on 6 February from the Federal Reserve Board, together with a selection of dense numerical tables, showed once again that consumer credit in use has increased over the course of a year. This is the fourth year in a row and the 67th yearly increase in the 69 years since 1945. But does this mean that credit growth is a meaningful worry? Total consumer sector income and total assets have also increased in 67 of the 69 years since World War II.

By itself, the economic phenomenon of continuous credit growth doesn't mean the trend is either benign or toxic. And, whether rising or falling, it certainly doesn't deny that some consumers have debt troubles. But it does suggest that evaluating the importance of the long-term trend in credit use might not be a simple one. Credit growth is a statistical fact, but its implications are more subtle.

Significantly, high-powered econometric measurement approaches haven't produced evidence from past experience that credit growth has led to the biggest expressed concern, that it leads to decrease in future spending and causes or accentuates macroeconomic recessions. If anything, available evidence is to the contrary. It seems that the larger amounts of credit go on the books when consumers are in good shape financially and generally optimistic about the future. These aren't the conditions that lead quickly to recessions.

Credit: Sean MacEntee (Flickr, CC-BY-2.0)

Leaving aside sophisticated econometrics, even simple review of the data suggests a more benign conclusion than the simple one that continuous growth somehow proves that credit has just grown too much for too long. For instance, a look at the Federal Reserve's statistic measuring the ratio of consumer credit debt payments to income known as the "Debt Service Ratio" (the DSR) shows that even with the inclusion of growing student loan debt after 2003, the DSR is trendless since first calculated in 1980. Other burden measures with longer histories are similarly trendless since the 1960s.

Nonetheless, such measures don't reveal the distribution of debt. For example, are lower income consumers deeper than ever in debt? If so, this may argue to some people for making consumer credit more difficult to obtain, even if this disadvantages the rest of society. But statistical evidence is contrary here too. Ongoing surveys of consumers as reported in the Federal Reserve's periodic Surveys of Consumer Finances show that growth in the credit using proportion of low income consumers has been slight since 1963 and only moderate since then in higher income groups. The shares of consumer credit owed by the various income quintiles show great stability since the 1950s.

In sum, consumer credit use has grown in the post-World War II era, but not very much relative to income or assets since the early 1960s. Historical patterns in these ratios have been intensely cyclical, though, which may help explain why there are expressions of concern when they are in a rising cyclical phase. Debt growth has occurred in all income and age groups, but the bulk of consumer credit outstanding currently is owed by the higher income population segments, much as in the past. As with many other simple conclusions from observable phenomena, there is more to the credit growth question than revealed in a single glance at the yearly totals.

This article originally appeared at the OUPblog.

Please read our comments policy before commenting.

Note: This article gives the views of the author, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: **http://bit.ly/1aLAzMo**

About the author

Thomas A. Durkin
Thomas A. Durkin has specialized in the economics and regulation of consumer financial services, in the federal government as Senior Economist at the Federal Reserve Board, in the academic area as Associate Professor of Finance at the Pennsylvania State University, and in the private sector as Chief Economist of the American Financial Services Association. He is the co-author of Consumer Credit and the American Economy.