Federal reserve report reveals exploding levels of US household debt

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US household debt surged by $460 billion last year, the sharpest one-year rise in nearly a decade, according to a report released last week by the New York Federal Reserve.

Total US household debt now stands at $12.58 trillion, almost as much in nominal terms as right before the 2008 financial crisis, which was triggered by the failure of the mortgage-backed securities market. The Fed’s report anticipates that this level will be surpassed sometime this year.

Media reports have attempted to downplay the significance of the report by pointing to the fact that delinquencies and the share of personal disposable income swallowed up by debt servicing, as well as the level of household debt relative to GDP, remain well below their pre-recession levels. *Fortune* magazine, for example, pointed out that the household debt to GDP ratio is roughly 79 percent, the lowest level since 2002.

However, the growth of household debt, as well as the particular kinds of debt Americans are taking on, demonstrate the ongoing economic stagnation for tens of millions of workers and young people. It is highly symptomatic that debt levels skyrocketed last year while US GDP grew at the lowest rate in five years, only 1.6 percent. Growth since the official end of the recession in 2009 has been the lowest for any official economic recovery since the end of World War II.

For the vast majority of the population, the recovery has not brought a return to pre-recession economic conditions. This is because what economic growth has occurred since the recession has been predicated upon the intensified exploitation of the working class, manifested above all in a shift towards a low-wage, casual workforce.

Joblessness among the working-age population remains at high levels, masked by an official unemployment rate which does not count workers who have given up looking for jobs altogether. Those jobs which have been added since the recession are far more likely to be low-wage or part-time than the jobs wiped out by the recession.

Younger workers have been particularly hard hit: 18-34 year olds today make 20 percent less than in 1989, and 1 million young people faced long-term unemployment in the aftermath of the recession, according to a report last month by Young Invincibles.

The recent rise in debt has been driven primarily by student loans and auto loans, which together accounted for roughly $2.5 trillion in the fourth quarter of 2016. This is in sharp contrast to pre-recession debt levels, which were dominated by housing debt. New housing debt has plummeted from a decade ago by more than half, from $700 billion to $300 billion. While mortgages and home equity still make up an absolute majority of total household debt, the share has declined from 79 to 71 percent.

The rise in student loan debt is due, in the first place, to skyrocketing costs of attending American universities. Since the 2001-2002 school year, the average annual cost of attending a public four-year university rose from $12,250 to $20,090, with even higher increases for private universities, according to the College Board. Student loan debt exploded over the same period, increasing sixfold from $200 billion in 2003 to $1.3 trillion last year.

However, this has been compounded by the fact that, since the 2008 recession, millions of young people have chosen to defer entering the job market in favor of going to college due to poor employment opportunities. Upon graduating, however, they are saddled with debt which greatly diminishes the added value of their degrees.

At the same time, young people are taking on less of other kinds of debt, especially mortgages and other forms of housing debt, due to dire financial constraints. A Pew Research Center report last year found that 18-34 year olds were more likely to live with their parents than any other form of living arrangement for the first time since 1880. At the same time, median net wealth among college graduates with student debt has plummeted, from $86,500 in the 1980s to $6,600 in 2014.

While debt delinquency in general remains down from pre-recession highs, due in part to sharp decreases in subprime mortgage lending, delinquencies among auto loans, the other major source of new debt, surged to an eight-year high. Some $23.27 billion worth of car loans were delinquent for a month or more during the fourth quarter of 2016.

These figures come amid mounting signs of a potential slowdown in the global auto industry. GM, the largest American automaker, relied on profits from North America, where new car purchases have been propped up by low interest rates, to offset stagnant or declining profits from China, South America and Europe. Meanwhile, the number of unsold vehicles held by American dealers rose by one-third to 845,000 vehicles by the end of 2016.

There are concerns among economists that a collapse in the auto loan bubble could pose systemic risks to the global economy, similar to the subprime mortgage crisis in 2008.