

Center for American Progress



Drowning in Debt:
America's Middle Class Falls Deeper
in Debt as Income Growth Slows
and Costs Climb

Christian E. Weller, Ph.D.
Center for American Progress

**Drowning in Debt:
America's Middle Class Falls Deeper
in Debt as Income Growth Slows
and Costs Climb**

Christian E. Weller
Center for American Progress

May 2006

Executive Summary

America's middle class is drowning in debt. A typical middle income family earning around \$45,000 a year saw its debt burden grow by 33.1 percent between 2001 and 2004, even after adjusting for inflation. Debt relative to income rose even more, to 33.9 percent, during this period for middle income families, according to the Federal Reserve Board's tri-annual Survey of Consumer Finances. Personal bankruptcies among these households are rising steeply.

The reasons for greater economic distress among middle class households are not hard to pinpoint. Slow income growth between 2001 and 2004, the last year for which complete data is available, has not kept pace with the rising cost of big ticket items such as housing and education loans, medical expenses and transportation. Family budgets have been squeezed.

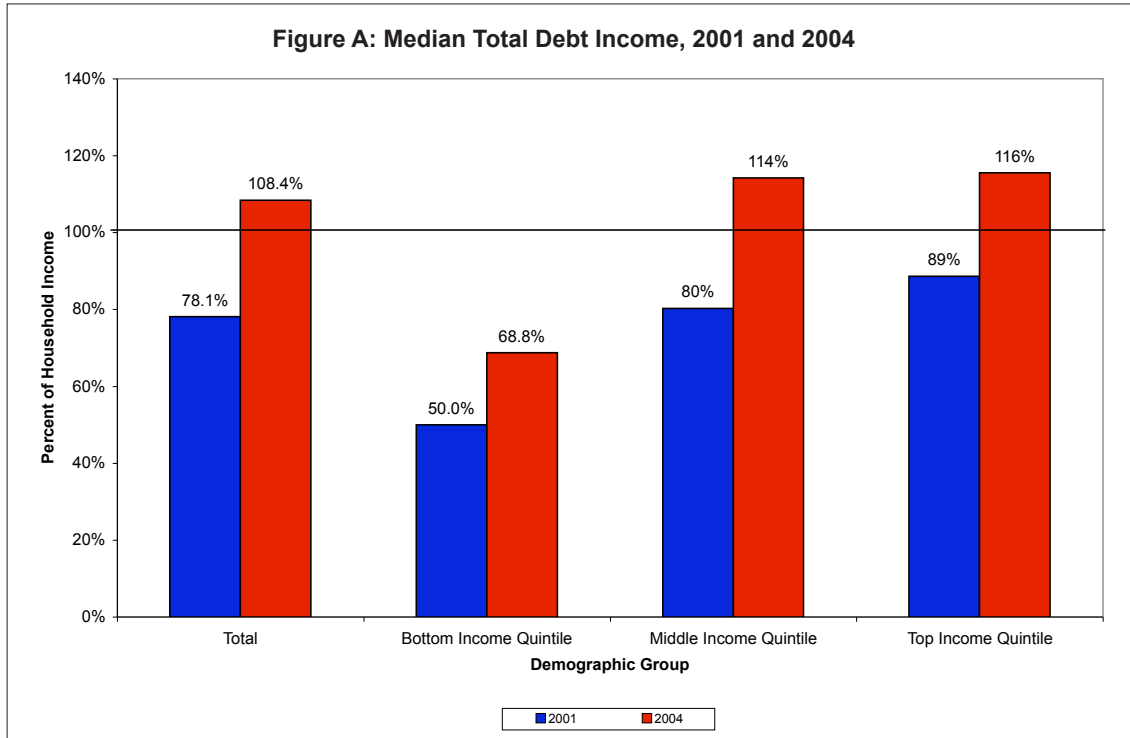
A common but misplaced assumption is that the growth in debt among middle-income families – those with incomes roughly between \$25,000-to-\$70,000 a year - is the result of over-consumption through increased credit card debt. Rather, growth in debt is primarily due to heavier borrowing for investments in homes or education, both of which saw dramatic price increases in recent years. The cost of a college education, for example, grew by 24.6 percent between 2001 and 2004, after adjusting for inflation.

These rising debt levels are also beginning to affect groups of middle income families that historically have not struggled with debt. In 2004, for example, white families paid 18.3 percent of their income towards debt service, a percentage equal to that of Hispanic families and slightly above the 18.2 percent for black families. In previous surveys, white middle-income families had substantially lower debt service payments than Hispanic and black counterparts.

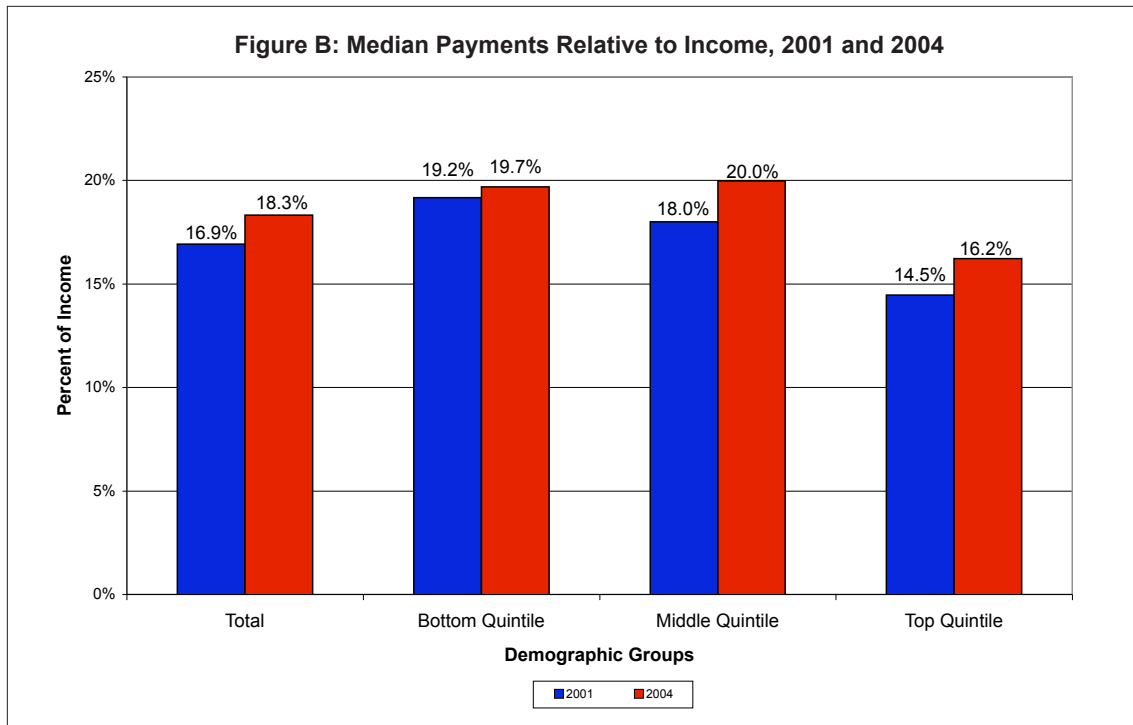
Specifically, this report finds:

- Debt has expanded by 30.3 percentage points to 108.4 percent of income – the first time since the Federal Reserve started conducting this survey that debt exceeded income (See Figure A).
- Despite low interest rates, debt payments surged to new highs. In 2004, the typical family spent more than 18 percent of its income on debt payments – the largest share since the Federal Reserve started collecting these data.

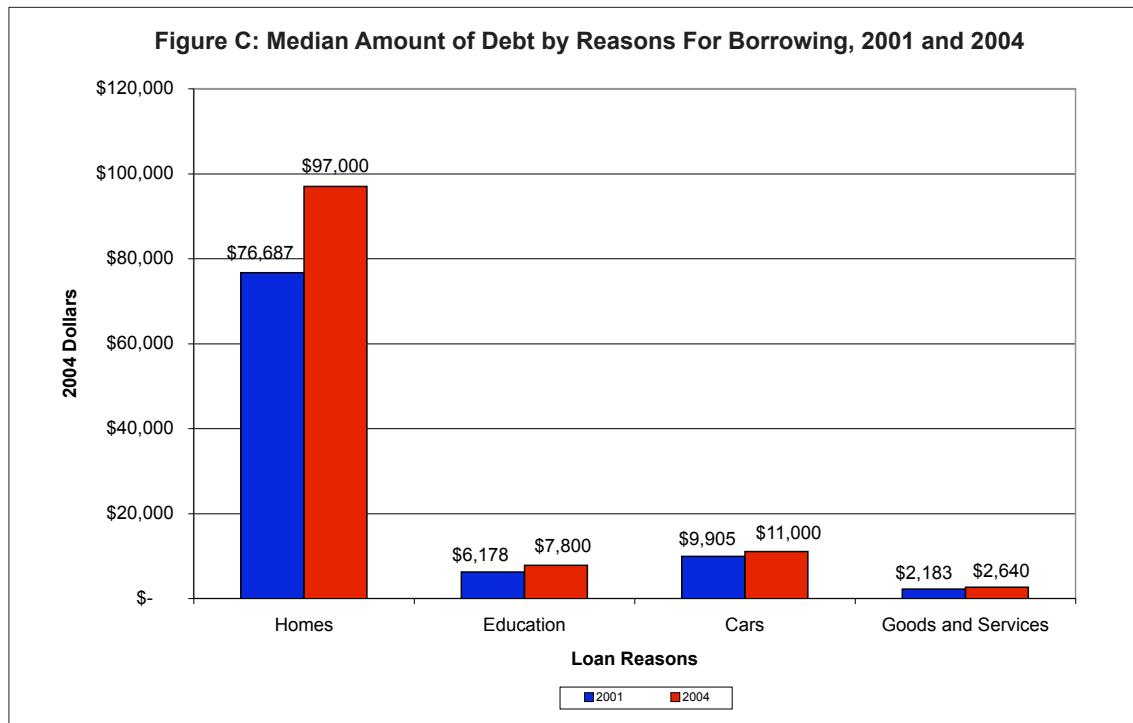
- The share of heavily indebted households continues to rise. The share of households with debt payments greater than 40 percent of income rose from 12.8 percent in 2001 to 13.7 percent in 2004.



The data illustrate a more pronounced story about the economic situation of America's middle class. From 2001 to 2004, for example, the typical middle-income family had a sharper increase in debt relative to income (33.9 percentage points) than families with higher or lower incomes. In 2004, the typical middle-income family dedicated the second largest share of income for debt payments (20 percent) relative to other income groups. Finally, among middle-income families, the share of families with debt payments greater than 40 percent of income rose the fastest among all income groups (3.2 percentage points from 2001 to 2004).



This growth in debt has been fuelled largely by loans for housing and education at a time of weak income growth. Households were caught in a bind that could lead them to take on more debt than in the past.



Indeed, groups that historically have not struggled as much with debt as other groups are now experiencing debt burdens similar to their counterparts who traditionally struggled more. For example:

- Families between 35 and 44 years of age saw their debt payments relative to income rise by 34.9 percent, and their share of households with payments greater than 40 percent of income grew by 2.8 percentage points from 2001 to 2004 – faster than among younger or older families.
- Single men saw a much larger increase than single women or married couples in debt payments relative to income. In 2004, single men spent 17.3 percent of their income on debt payments, surpassing married couples for the first time since 1989.
- In 2004, households with at least some college education devoted 18.6 percent of their income to debt payments – more than any other group.

Rising indebtedness has occurred despite the fact that attitudes toward saving among most middle income families has become more positive over the last five years. A larger share of households identified themselves as savers in 2004 vs. 1989, an important attitudinal shift since empirical evidence supports the notion that households that show more restraint are expected to have more wealth.

Yet debt levels were higher among families that identified themselves as savers compared to those who did not. This suggests that the known economic fundamentals of slow income growth and rising costs have made it more difficult for families to cover these costs with income, leading even those that want to save more money further into debt.

Drowning in Debt: America's Middle Class Falls Deeper in Debt as Income Growth Slows and Costs Climb

I. Introduction

The U.S. has seen an extraordinary household debt boom in recent years. During the most recent business cycle, which started in March 2001, the total amount of debt that families owed rose faster than their income. Whereas in March 2001, the amount of debt was about equal to the amount of disposable income, it reached 20 percent greater than income by September 2005. Lower interest rates helped families cope with more debt, but ultimately the share of income that households had to use for interest and principal payments — their debt service — rose to unprecedented highs in 2004 and 2005. This analysis was conducted to understand how these aggregate debt trends have affected different types of families and what factors are driving these trends. This more nuanced understanding of debt trends can hopefully inform more thoughtful and effective solutions to address this growing problem.

While the overall trends are worrisome, the aggregate numbers mask important and interesting differences among demographic segments. In particular, families who typically did not struggle as much as their counterparts are starting to lose ground. For middle-income families, all measures of debt — i.e., total debt relative to income, debt service relative to income, and share of households with debt service greater than 40 percent of income — show that the debt burden rose more significantly for them than for higher- or lower-income families. For union families, debt service relative to income rose faster than for non-union families. White families, who were less burdened by debt in the past, experienced struggles similar to black and Hispanic families in 2004. Similar trends hold true for single men, younger families (ages 35-44), and the same is true for single men, families between the ages of 35 and 44, and families headed by somebody with at least some college education.

Against the backdrop of rising debt levels and increasing costs of debt, the question arises as to why households assume so much debt. One typical reason for families to borrow more is to stabilize their consumption when their incomes fluctuate. Income can fluctuate from year to year (e.g., because of a job change), but most families cannot change their consumption in response (e.g., grocery and utility bills continue). Debt allows families to weather these income fluctuations. Another important reason why households borrow money is to invest in the future, including a home, college education, and cars to get back and forth from work.

A legitimate question that many raise is whether the recent burgeoning of debt is driven by borrowing to make up for fluctuations in income and investment, as described above, or rather by families' voracious appetites for consumption. The Survey of Consumer Finances suggests that families do not suffer from spend-happiness. In fact, families self-report that they have become more willing to save over the last five years. Across demographic categories, families became more likely to self-identify as savers in 2004 than in 1989, although there was some variation among segments. Also, the vast majority of groups were more likely to self-identify as savers in 2004 than in 2001. An interesting observation is that indebtedness among self-identified savers — both in absolute terms and relative to assets — rose more quickly for savers than for non-savers. This suggests that increasing debt may be driven more by economic factors that are standing in the way of saving, rather than a growing appetite for consumption.

In sum, there are two important conclusions from this analysis. First, rapidly rising debt burdens are holding families back. In particular, families that historically have not struggled as much as their counterparts are now beginning to experience challenges. Second, it appears that families are incurring debt in order to invest in the future and maintain consumption in the face of weak income growth, rather than a lack of spending self-control.

II. Background

Since the last business cycle officially ended in March 2001, the U.S. has experienced an extraordinary boom in private household debt. The ratio of household debt to disposable income rose from approximately 100 percent in March 2001 to well over 120 percent towards the end of 2005 (figure 1).

Figure 1: Household Debt Relative to Personal Disposable Income



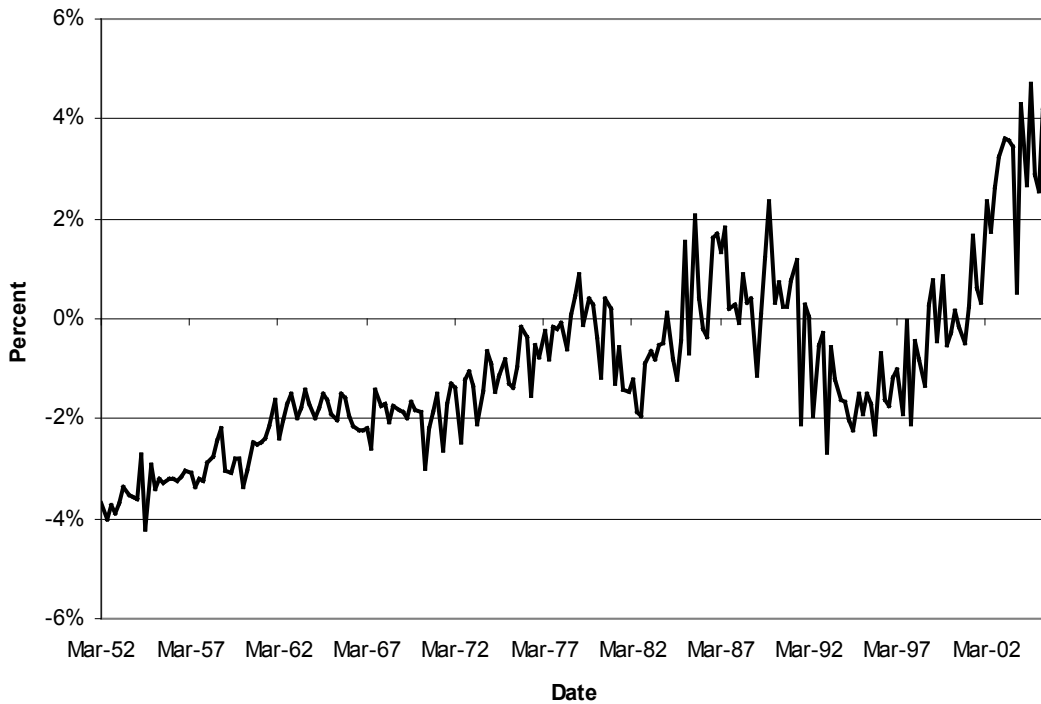
Notes: Credit refers to credit market instruments. Author's calculations based on tables F.100 and L.100 from Board of Governors, Federal Reserve System, Release Z.1 Flow of Funds Accounts of the United States, Washington, D.C.: Board of Governors.

Much of the increase in private household debt came in the form of additional mortgages. Typically, households borrow money against the equity in their homes for home expansions, renovations or upgrades — that was not the case over the last few years. Households borrowed more money as mortgages and home equity lines than they used to buy more expensive homes or to renovate their existing houses. The difference between new mortgages and expenditures on residential real estate is, if positive, often referred to as home equity cash-outs (figure 2). Relative to disposable income, this amount has trended sharply upwards in recent years. In 2005, private households cashed-out equity in their homes to the tune of \$420 billion, which meant that they had about four percent more money than just their disposable income available to spend.

One explanation for growing home equity cash-outs focuses merely on financial trends. Home equity has appreciated measurably. From March 2001 to December 2005, home prices in the U.S. rose by 53.7 percent (OFHEO, 2006), while prices for other consumer items grew by only 11.3 percent (BLS, 2006a) — a difference of 42.4 percentage points. From March 2001 to March 2004, the difference between the increase in housing prices and overall prices was 18.4 percentage points.

Not only did people see the equity in their homes rise quickly, it was also easier to borrow against this money thanks to lower interest rates. After dipping below seven percent in March 2001 and below six percent in January 2003, mortgage rates stayed below or close to six percent through the end of 2005 (BOG, 2006b).

Figure 2: New Mortgages Minus Real Estate Investments, Relative to Disposable Income



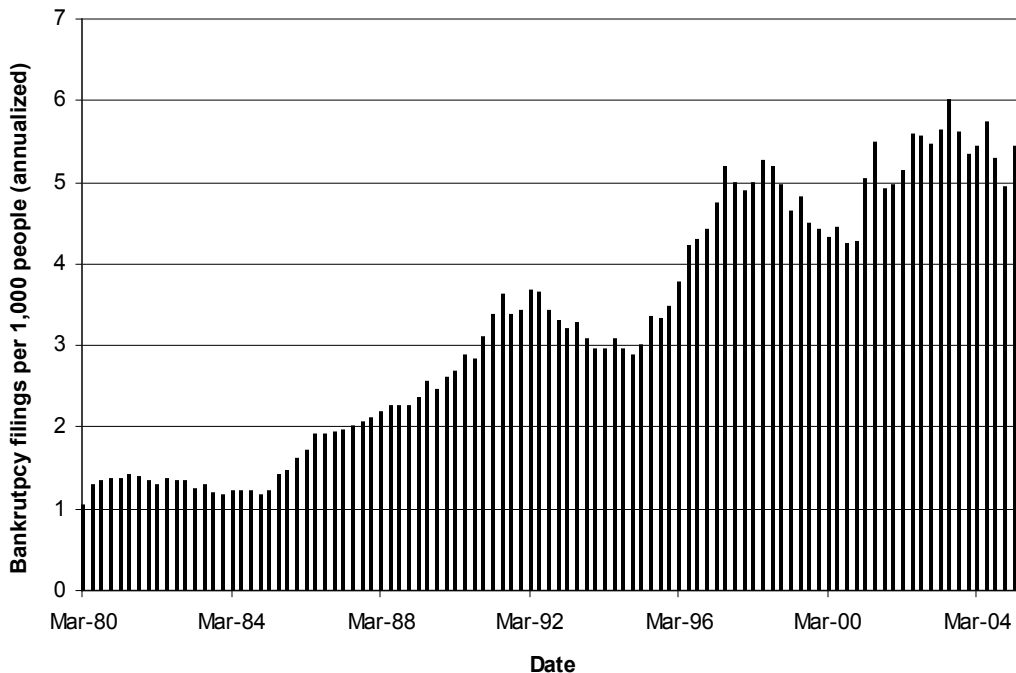
Notes: Author's calculations based on table F.100 from Board of Governors, Federal Reserve System, Release Z.1 Flow of Funds Accounts of the United States, Washington, D.C.: Board of Governors.

One fact that apparently contradicts the notion that households simply borrowed money because they could do so fairly cheaply is the fact that, at least in the aggregate, debt service payments rose to unprecedented levels. In the second half of 2005, households paid 13.9 percent of their disposable income in debt service — interest and principal payments. This was the

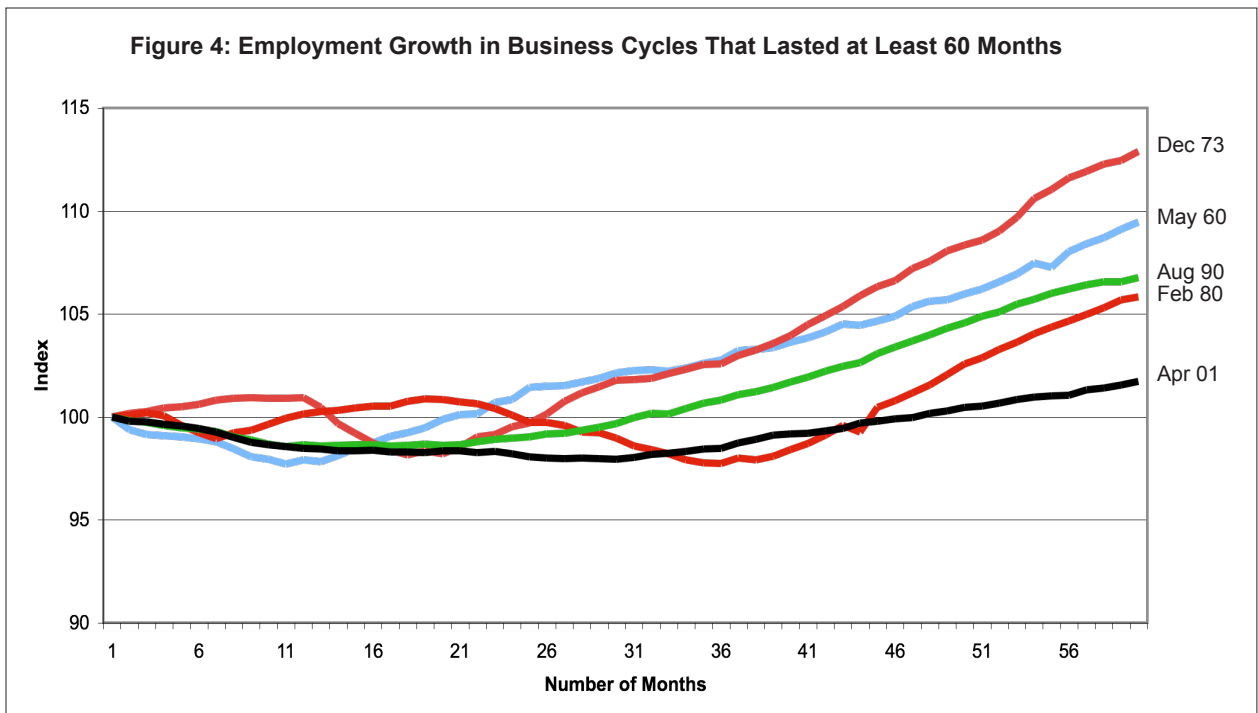
highest share since the Federal Reserve started collecting this information in 1980 (BOG, 2006c). Another reason for pause is the fact that personal bankruptcies, which often follow severe indebtedness, grew to record highs after March 2001 (figure 3). This occurred despite interest rates that were extremely low by historical standards.

One possible (and plausible) explanation for this seeming contradiction is that, at least for some households, the rise in debt was driven by necessity. Amid a weak labor market that persisted since March 2001, households borrowed to maintain their consumption. For instance, job growth from March 2001 to December 2005 was substantially weaker than in any business cycle of at least the same length. When the starting points for each business cycle that lasted at least as long as this one are set equal to 100, it becomes clear that over the first five years of this business cycle, job growth was atypically weak (figure 4). While five years after the business cycle started there were between six percent and 13 percent more jobs in previous business cycles of the same length, the number of jobs was less than two percent greater in the most recent one.

Figure 3: Personal Bankruptcy Filings Relative to the Population



Notes: Figures are annualized. Author's calculations based on ABI (2005) and Census (2005a).



Notes: Author's calculations based on BLS (2006b).

Amid weak job growth, real wages stayed flat or even declined for most of the period from March 2001 to the end of 2005. Inflation adjusted wages fell in 2003, 2004 and 2005 (BLS, 2006b). Also, employer sponsored health insurance coverage in 2004 was 59.8 percent, its lowest level since 1993 (Census, 2005b) and private pension coverage amounted to 46.3 percent in 2005, down from 50.3 percent in 2000 (Purcell, 2005).

The income trends in the SCF reflect the rather weak performance of the last few years. For instance, total family income for the typical family grew by 0.9 percent from 2001 to 2004 (table 1). Single men, families headed by somebody with some college education, young families, Hispanic families, families in the fourth income quintile, and union families had lower income growth than their counterparts from 2001 to 2004 (table 1).¹

¹ It is important to note that these income trends differ from those reported by the Census (2005b). The primary reason for this difference is that the SCF oversamples higher income earners, which explains why the SCF shows income gains for the median family from 2001 to 2004, whereas the Census (2005b) shows an income decline during the same period.

	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	\$37,551	\$34,730	\$37,369	\$39,625	\$42,190	\$42,557	13.3%	0.9%
Married	\$52,572	\$50,759	\$49,826	\$55,941	\$60,580	\$60,796	15.6%	0.4%
Single men	\$25,535	\$24,044	\$28,650	\$29,136	\$31,372	\$30,398	19.0%	-3.1%
Single women	\$18,025	\$17,365	\$18,685	\$19,812	\$21,636	\$22,292	23.7%	3.0%
No H.S./GED	\$19,527	\$16,029	\$18,685	\$18,647	\$17,309	\$19,252	-1.4%	11.2%
H.S./GED	\$33,045	\$32,058	\$32,387	\$33,798	\$35,699	\$34,451	4.3%	-3.5%
Some college	\$42,057	\$36,066	\$37,369	\$40,790	\$43,272	\$40,530	-3.6%	-6.3%
College	\$60,082	\$58,773	\$56,054	\$62,933	\$71,398	\$70,928	18.1%	-0.7%
18 to 24	\$16,523	\$16,029	\$18,685	\$15,151	\$21,636	\$19,252	16.5%	-11.0%
35 to 44	\$52,572	\$46,752	\$47,334	\$48,948	\$54,090	\$49,650	-5.6%	-8.2%
Over 64	\$21,029	\$21,372	\$22,422	\$24,474	\$25,963	\$26,345	25.3%	1.5%
White	\$43,559	\$40,073	\$41,106	\$44,286	\$47,599	\$48,636	11.7%	2.2%
Black	\$16,523	\$22,708	\$21,176	\$23,309	\$27,045	\$28,371	71.7%	4.9%
Hispanic	\$21,029	\$22,708	\$27,404	\$27,970	\$27,045	\$26,345	25.3%	-2.6%
Bottom income quintile	\$10,514	\$9,751	\$9,716	\$11,654	\$10,818	\$11,146	6.0%	3.0%
Second income quintile	\$27,037	\$24,044	\$24,913	\$26,805	\$27,045	\$26,345	-2.6%	-2.6%
Middle income quintile	\$45,061	\$40,073	\$43,597	\$44,286	\$45,435	\$44,583	-1.1%	-1.9%
Fourth income quintile	\$64,588	\$61,445	\$64,773	\$69,926	\$72,480	\$68,902	6.7%	-4.9%
Top income quintile	\$112,654	\$108,197	\$112,108	\$118,874	\$129,815	\$128,684	14.2%	-0.9%
Union	\$55,576	\$50,759	\$53,563	\$58,272	\$63,826	\$61,809	11.2%	-3.2%
Non-union	\$45,061	\$42,744	\$42,352	\$44,286	\$47,599	\$47,623	5.7%	0.1%

Sharp increases in the prices of big ticket items also put middle-class families in a bind. From March 2001 to September 2005, the costs of the top five consumer items — medical care, housing, food, cars and household operations — rose on average by 11.2 percent. Over the same period, the costs of the bottom five items — furniture, clothes, transportation (mass transit, etc.), recreation and gasoline and fuel — grew by only 3.5 percent (table 2). Judging from the aggregate figures, households seem to have been caught in a bind, which could have led them to take on more debt than in the past.

Table 2
Relative Consumption Levels and Price Changes,
March 2001 to September 2005

Consumption item	Consumption as share of disposable income in 2000 (percent)	Rank of relative consumption in 2000	Price change March 2001 to September 2005 (percent)	Relative consumption change, March 2001 to September 2005 (percentage points)
Medical care	14.3	1	14.5	-0.1
Housing	14.0	2	13.9	-0.1
Food	12.9	3	11.0	0.6
Household operation	5.4	4	10.0	-0.3
Motor vehicles	5.4	5	-2.5	1.0
Furniture	4.4	6	-20.7	0.0
Clothes and shoes	4.1	7	-8.6	-0.3
Transportation	4.0	8	11.0	-0.5
Recreation	3.7	9	13.1	2.2
Gasoline, fuel and oil	2.7	10	65.8	0.1
Personal saving	2.3			-3.0
Average for top 5 consumption categories	-	-	11.2	0.7
Average for bottom 5 consumption categories	-	-	3.5	0.0

Notes: Source is Weller (2006). Author's calculations based on BEA (2006). Averages for the bottom and top five items are weighted by the weights for the respective subgroups.

Not only may the need to take on more debt have grown, but the costs of doing so may have declined at the same time. Specifically, interest rates declined to their lowest levels in decades after 2001. In addition, lenders made more credit available for a wider group of borrowers. Yet, not all borrowers seem to have benefited from lower-cost credit to the same degree. Particularly, low-income families tend to have less access to lower-cost credit, especially mortgages and home equity lines.

Over time, the standardization of mortgages and the introduction of mortgage backed securities reduced the costs of consumer debt. These changes took shape in the 1960s with the creation of Ginnie Mae under the Housing and Urban Development Act of 1968, the creation of Freddie Mac, the engagement of Fannie Mae in the pass-through market under the Emergency Home Finance Act of 1970 and tax advantages for mortgages under the 1986 Tax Reform Act (Vandell, 2000). These innovations helped to reduce risks for mortgage lenders and lowered the costs of mortgages (Van Order, 2001).

Pearce and Miller (2001) estimated that the resultant costs savings to consumers amounted to somewhere between \$8.4 billion to \$23.5 billion.

Furthermore, recent tax changes have given rise to financial innovation, reducing the costs of particular forms of credit. The Tax Reform Act of 1986 phased out the deductibility of most non-mortgage interest and introduced new marginal tax rates that reduced the tax advantage of all types of debt, leading to a shift of consumer debt towards mortgages, including home equity lines (Dunsky and Follain 2000; Stango 1999). Stango (1999) estimates that by 1991 mortgage debt was over one percent higher, credit card debt approximately 14 percent lower, and auto loan debt approximately nine percent lower than they would have been without these changes.

At the same time as these developments were making lower-cost debt available, higher-cost debt still abounds, which has remained more prevalent among lower-income households and younger families. In particular, a number of studies have found that credit card debt tends to be more costly than other forms of credit (Chatterjee et al., 2002; Gross and Souleles, 1998; Stavins, 2000). One possible explanation of this difference seems to be that credit card lenders tend to screen their borrowers carefully and offer worse terms to borrowers who are perceived as higher risk (Ausubel, 1999; Stavins, 2000). In addition, credit cards charge a variety of additional fees.

III. Overview of Household Debt

III.1 General

It goes without saying that the aggregates for the U.S. do not tell the whole story. For more detail, household level data are required. The Federal Reserve produces a tri-annual data set, the Survey of Consumer Finances (SCF), that includes information on household debt and assets. The SCF surveys a cross section of the U.S. population every three years. The survey covers all forms of financial and non-financial assets as well as many forms of credit, such as credit card debt, mortgages, margin debt, loans against pension plans and life insurances, among others. The last available survey year is 2004. Consistent data are available since 1989. Because the intent of the survey is to get an accurate picture of financial assets and debt in the U.S., it tends to oversample high-income households.

There are many ways to look at debt trends. To explore the relevant questions, the following five indicators are primarily used:

- **Real debt:** These data provide a sense of which forms of debt grew fastest for which groups of households. This measure also offers a sense of changes in the composition of debt for different groups of households, e.g., by comparing the growth rates of mortgages with those of credit card debt.
- **Debt relative to income:** This ratio provides a first glimpse at the debt burden of different groups of households. Since for many groups, incomes rose faster than prices, real increases in debt levels may have just meant that debt relative to income remained stable.
- **Real non-retirement wealth:** This ratio offers a measure of the overall investment position of a household by relating debt to the value of household assets. Because asset values have grown rapidly, often faster than incomes, large debt increases may still have left many households with more non-retirement assets.
- **Debt payments relative to income:** This ratio is one of the two primary measures of debt burdens. If lower interest rates alone are the cause for the rapid rise in debt, this ratio should remain fairly stable. After all, households typically pay for their debt with their income and not with the appreciation of their assets.
- **The share of households with debt payments equal to or greater than 40 percent of income:** Even if debt payments relative to income have remained stable, the share of households with comparatively high payments may have increased, i.e., a growing share of families may have fallen through the crack, even if the situation for the typical household has not changed.

III.2 All Households

In 2004, more households than at any point since 1989 owed any debt, 74.6 percent to be exact (table 2). And, the typical household with any debt owed \$55,300, the typical household with any mortgage debt owed \$96,000 in mortgage debt, and the typical household with any credit card debt owed \$2,150 in credit card debt. Also, relative to income, debt climbed to 108.4 percent of income, mortgage debt rose to 147.1 percent and credit card debt to 4.9 percent (table 3).

From 2001 to 2004, debt grew substantially, in absolute terms and relative to income. Total debt grew by 33.1 percent, driven largely by mortgage debt growth of 23.5 percent from 2001 to 2004 (table 2). Debt growth also outpaced income growth, mirrored in an increase of 30.3 percentage points in the debt to income ratio and 31.1 percentage points in the median mortgage to income ratio. Credit card debt grew much slower with 6.2 percent in real credit card debt and 0.5 percentage points relative to income.

The sharp rise in debt stalled the growth in non-retirement wealth for the typical family. At the median, non-retirement wealth increased by only 1.1 percent from 2001 to 2004 — about one-fourth the growth rate of the previous 12 years (table 3).

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	any debt	66.8%	69.9%	72.2%	72.2%	73.7%	74.6%	7.8%	0.9%
	mortgage debt	38.6%	38.5%	40.4%	42.0%	43.4%	45.9%	7.3%	2.5%
	credit card debt	39.6%	43.7%	47.3%	44.1%	44.4%	46.2%	6.6%	1.8%
	other debt	44.1%	44.5%	46.8%	46.8%	46.8%	49.0%	4.9%	2.2%
Median real levels of	total debt	\$23,721	\$23,459	\$27,946	\$38,258	\$41,539	\$55,300	133.1%	33.1%
	mortgage debt	\$46,914	\$55,353	\$64,016	\$73,038	\$77,752	\$96,000	104.6%	23.5%
	credit card debt	\$1,320	\$1,318	\$1,847	\$1,971	\$2,024	\$2,150	62.9%	6.2%
	other debt	\$9,192	\$8,303	\$9,356	\$11,593	\$11,929	\$13,000	41.4%	9.0%
	net worth	\$55,271	\$49,290	\$46,267	\$54,662	\$63,491	\$64,220	16.2%	1.1%
Median share of payments relative to income for families with any of the respective debt	total debt	16.3%	16.5%	16.5%	17.7%	16.9%	18.3%	2.0%	1.4%
	mortgage debt	13.7%	16.2%	16.3%	16.5%	15.3%	16.7%	3.0%	1.4%
	credit card debt	0.5%	0.6%	0.8%	0.8%	0.7%	0.8%	0.3%	0.1%
Share of households with	total debt service payments above 40% of income	11.4%	12.7%	12.3%	15.4%	12.8%	13.7%	2.3%	0.9%
	mortgage debt service payments above 40% of income	6.8%	10.1%	10.4%	11.4%	8.7%	9.6%	2.8%	0.9%
	credit card debt service payments above 10% of income	1.3%	2.7%	3.8%	6.0%	3.0%	4.3%	3.0%	1.3%
Median ratio to income of	total debt	52.3%	62.7%	68.1%	81.3%	78.1%	108.4%	56.1%	30.3%
	mortgage debt	80.0%	100.0%	111.4%	119.1%	116.0%	147.1%	67.1%	31.1%
	credit card debt	3.1%	3.8%	4.6%	4.8%	4.4%	4.9%	1.8%	0.5%

Even record low interest rates could not stall the rise in debt payments relative to income. In 2004, these stood at the highest level in 15 years with 18.3 percent for the typical family, after increasing 1.4 percentage points relative to income since 2001.

Although credit card debt generally grew much slower than other forms of debt, it possibly contributed more to the debt struggles of many families. Specifically, the share of households with mortgage payments in excess of 40 percent of income grew by only 0.9 percentage points, whereas the share of households with credit card payments in excess of 10 percent of income increased faster with a 1.3 percentage point increase.

IV. Debt Trends by Demographic Characteristics

IV.1 Income

To see how America's middle class fared in a world of rising debt levels and debt payments, debt trends are first considered for each income group.² There is an ambiguous relationship between income and debt. Higher incomes reduce the need to borrow, but at the same time they make it easier to obtain a loan.

While all income groups saw the highest total debt levels since 1989, all forms of debt, including credit card debt, only proliferated for the third and fourth quintile of the income distribution. In 2004, all income groups had the largest amount of real total debt and mortgage debt since 1989 (tables 4 through 8). However, the typical credit card debt declined for low-income and high-income households (tables 4 and 8). All groups also showed the highest debt to income and mortgage to income ratios since 1989. In comparison, credit card debt relative to income declined for the lowest 40 percent and the highest 20 percent of income earners.

Debt growth was strongest for the 20 percent of households in the middle of the income distribution. Total debt grew by 42.6 percent for the typical household in this income group, substantially faster than for any other group. Also, for this income group, the ratio of debt to income rose fastest with 33.9 percentage points (table 6).

Typically, debt to income ratios went up with income. The exception are the 20 percent of households with the highest incomes, who have generally a lower ratio of debt to income than households in the fourth quintile (tables 7 and 8).

However, wealth increased unambiguously with income. Families with greater incomes had also more non-retirement wealth. Yet, wealth for the typical family declined for the bottom quintile with 12.8 percent, for the middle quintile with 10.5 percent and for the top quintile with 2.0 percent (tables 4, 6 and 8). That is, for a substantial share of families, debt rose faster than the value of non-retirement assets.

The sharp rise in debt also translated into greater debt payments relative to income. Families in the third and fourth quintile saw the largest increases from 2001 to 2004 with 2.4 and 2.0 percentage points, respectively (tables 6 and 7).

² Income quintiles are defined by the income cut-offs from the Current Population Survey (Census, 2005). The SCF's definition of income mirrors that of the CPS. Yet, because the SCF oversamples high income earners, this data set gives an inaccurate reflection of income trends and income distribution.

Table 4: Families in the Bottom Income Quintile

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	36.8%	45.5%	45.6%	47.8%	47.6%	49.9%	13.1%	2.3%
	mortgage debt	9.8%	11.7%	11.8%	12.6%	13.3%	14.9%	5.1%	1.5%
	credit card debt	18.2%	26.5%	27.8%	27.1%	30.8%	29.2%	10.9%	-1.7%
	other debt	20.6%	25.4%	24.8%	28.3%	25.0%	26.7%	6.1%	1.7%
Median real levels of	total debt	\$2,932	\$3,690	\$4,924	\$5,449	\$5,539	\$7,300	149.0%	31.8%
	mortgage debt	\$11,729	19,769	23,391	\$32,461	31,953	40,000	241.1%	25.2%
	credit card debt	\$660	\$738	\$923	\$1,159	\$1,065	\$1,000	51.6%	-6.1%
	other debt	\$2,932	\$3,598	\$4,924	\$5,333	\$5,006	\$6,000	104.6%	19.9%
	net worth	\$1,877	\$3,954	\$4,309	\$2,898	\$2,982	\$2,600		-12.8%
Median share of payments relative to income for families with any of the respective debt	total debt	19.0%	13.3%	13.7%	17.5%	19.2%	19.7%	0.7%	0.5%
	mortgage debt	31.5%	38.0%	40.4%	40.6%	42.4%	39.5%	8.0%	-2.9%
	credit card debt	0.9%	1.4%	1.5%	1.6%	1.7%	1.6%	0.7%	-0.1%
Share of households with	total debt service payments above 40% of income	27.0%	29.1%	31.7%	34.8%	32.4%	31.7%	4.7%	-0.7%
	mortgage debt service payments above 40% of income	44.4%	55.4%	65.2%	66.1%	59.9%	57.0%	12.6%	-2.9%
	credit card debt service payments above 10% of income	8.5%	13.1%	21.8%	26.8%	12.2%	19.1%	10.6%	6.9%
Median ratio to income of	total debt	25.0%	36.6%	48.7%	50.0%	50.0%	68.8%	43.8%	18.8%
	mortgage debt	116.7%	183.7%	179.5%	241.7%	281.2%	284.6%	167.9%	3.4%
	credit card debt	5.5%	8.3%	9.2%	9.4%	10.1%	9.5%	4.0%	-0.6%

As a result, the typical debt payments relative to income were the largest for families in the fourth quintile, followed by those in the third quintile.

The share of highly indebted also saw its largest increase for families in the middle of the income scale. The share of households with debt payments greater than 40 percent rose by 3.2 percentage points from 2001 to 2004, faster than for any other income group.

Although low-income families continued to struggle with debt, the debt boom was especially pronounced among middle-income families. Debt levels rose faster in the middle than it did at either end of the income spectrum, as did debt service ratios and the share of households with debt payments of more than 40 percent of income.

This middle class debt boom is consistent with the facts that middle-class families saw declining incomes during this period, as did lower-income families, but at the same time, middle-income families appear to have had better access to credit, especially mortgage credit, than lower-income families.

Drowning in Debt: America's Middle Class Falls Deeper in Debt as Income Growth Slows and Costs Climb

Table 5: Families in the Second Income Quintile

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	61.7%	65.0%	69.4%	68.9%	69.5%	69.7%	8.1%	0.2%
	mortgage debt	29.3%	23.1%	28.2%	26.8%	26.5%	30.5%	1.2%	3.9%
	credit card debt	34.7%	43.4%	46.0%	44.5%	45.4%	44.2%	9.5%	-1.2%
	other debt	35.2%	39.1%	42.5%	41.4%	42.6%	41.2%	6.0%	-1.4%
Median real levels of	total debt	\$11,465	\$9,226	\$12,840	\$14,434	\$12,781	\$16,500	43.9%	29.1%
	mortgage debt	\$27,855	\$30,312	\$36,932	\$46,373	\$47,930	\$54,000	93.9%	12.7%
	credit card debt	\$1,041	\$1,120	\$1,477	\$1,623	\$1,385	\$1,950	87.3%	40.8%
	other debt	\$6,084	\$5,404	\$5,983	\$9,275	\$9,053	\$8,400	38.1%	-7.2%
	net worth	\$34,379	\$30,510	\$30,777	\$28,867	\$25,179	\$26,200		4.1%
Median share of payments relative to income for families with any of the respective debt	total debt	17.1%	16.0%	17.7%	16.8%	16.0%	17.7%	0.6%	1.7%
	mortgage debt	19.1%	21.0%	24.0%	26.0%	22.2%	24.8%	5.7%	2.6%
	credit card debt	0.7%	0.8%	1.1%	0.9%	0.9%	1.1%	0.5%	0.3%
Share of households with	total debt service payments above 40% of income	15.8%	14.8%	14.6%	16.4%	16.4%	19.1%	3.3%	2.7%
	mortgage debt service payments above 40% of income	11.1%	18.7%	17.8%	20.9%	17.7%	20.2%	9.1%	2.6%
	credit card debt service payments above 10% of income	0.8%	2.7%	1.0%	3.3%	1.7%	5.0%	4.2%	3.3%
Median ratio to income of	total debt	25.0%	36.6%	48.7%	50.0%	50.0%	63.6%	38.6%	13.6%
	mortgage debt	100.0%	125.0%	150.0%	182.6%	164.5%	202.9%	102.9%	38.4%
	credit card debt	5.5%	8.3%	9.2%	9.4%	10.1%	6.8%	1.3%	-3.3%

Table 6: Families in the Middle Income Quintile

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	78.7%	78.6%	82.0%	78.8%	82.6%	82.8%	4.1%	0.2%
	mortgage debt	40.7%	42.1%	45.7%	46.8%	47.0%	51.9%	11.2%	4.9%
	credit card debt	52.0%	53.9%	55.4%	50.2%	53.0%	55.4%	3.4%	2.4%
	other debt	51.7%	50.4%	53.5%	52.9%	56.5%	55.8%	4.1%	-0.7%
Median real levels of	total debt	\$19,440	\$19,901	\$26,284	\$38,258	\$35,894	\$51,200	163.4%	42.6%
	mortgage debt	\$36,652	\$46,127	\$53,552	\$57,967	\$63,906	\$78,000	112.8%	22.1%
	credit card debt	\$1,217	\$1,344	\$1,847	\$2,319	\$2,130	\$2,200	80.8%	3.3%
	other debt	\$9,148	\$7,644	\$10,095	\$11,130	\$10,651	\$12,000	31.2%	12.7%
	net worth	\$62,355	\$47,445	\$43,199	\$46,918	\$54,320	\$48,600	-22.1%	-10.5%
Median share of payments relative to income for families with any of the respective debt	total debt	16.8%	16.9%	17.1%	19.5%	18.0%	20.0%	3.2%	2.0%
	mortgage debt	14.0%	18.7%	18.3%	18.3%	18.3%	19.6%	5.6%	1.4%
	credit card debt	0.5%	0.6%	0.7%	0.8%	0.8%	0.9%	0.4%	0.1%
Share of households with	total debt service payments above 40% of income	8.6%	12.7%	9.9%	13.8%	11.0%	14.2%	5.6%	3.2%
	mortgage debt service payments above 40% of income	3.0%	9.1%	6.0%	6.1%	4.5%	6.7%	3.7%	2.2%
	credit card debt service payments above 10% of income	0.1%	0.2%	0.8%	2.1%	1.1%	2.2%	2.1%	1.2%
Median ratio to income of	total debt	45.2%	50.6%	66.1%	85.3%	80.3%	114.2%	69.0%	33.9%
	mortgage debt	81.3%	111.4%	123.1%	126.7%	135.1%	170.0%	88.8%	34.9%
	credit card debt	2.7%	3.4%	4.3%	4.8%	4.5%	5.2%	2.5%	0.7%

Table 7: Families in the Fourth Income Quintile

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	86.6%	8.2%	88.5%	88.8%	85.6%	84.7%	-1.8%	-0.8%
	mortgage debt	62.8%	59.2%	62.8%	69.7%	64.2%	63.1%	0.3%	-1.0%
	credit card debt	59.3%	56.2%	63.4%	58.7%	53.5%	54.8%	-4.4%	1.3%
	other debt	64.6%	55.8%	62.5%	60.0%	58.5%	60.3%	-4.2%	1.8%
Median real levels of	total debt	\$45,595	\$51,399	\$63,154	\$80,191	\$81,906	\$96,300	111.2%	17.6%
	mortgage debt	\$57,177	\$64,578	\$73,865	\$81,153	\$85,208	\$100,000	74.9%	17.4%
	credit card debt	\$1,466	\$1,845	\$2,154	\$2,609	\$2,514	\$3,000	104.6%	19.3%
	other debt	\$10,263	\$10,939	\$10,563	\$15,071	\$14,752	\$15,900	54.9%	7.8%
	net worth	\$83,492	\$70,245	\$70,972	\$96,781	\$100,332	\$123,880	48.4%	23.5%
Median share of payments relative to income for families with any of the respective debt	total debt	18.0%	18.6%	18.2%	19.5%	18.5%	21.0%	2.9%	2.4%
	mortgage debt	13.3%	16.2%	15.5%	15.6%	14.2%	16.1%	2.7%	1.8%
	credit card debt	0.4%	0.5%	0.6%	0.6%	0.6%	0.7%	0.3%	0.1%
Share of households with	total debt service payments above 40% of income	4.6%	6.8%	5.9%	8.8%	6.2%	7.2%	2.6%	1.0%
	mortgage debt service payments above 40% of income	1.5%	3.5%	1.9%	1.3%	2.2%	3.1%	1.6%	0.9%
	credit card debt service payments above 10% of income	0.0%	0.3%	0.0%	0.8%	1.3%	0.3%	0.3%	-1.0%
Median ratio to income of	total debt	72.6%	86.6%	98.6%	115.9%	108.1%	137.6%	65.0%	29.5%
	mortgage debt	88.0%	105.5%	114.9%	118.7%	116.1%	146.2%	58.1%	30.1%
	credit card debt	2.4%	3.3%	3.4%	3.7%	4.1%	4.4%	2.0%	0.8%

Table 8: Families in the Top Income Quintile

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	88.9%	87.1%	86.5%	87.7%	87.7%	88.3%	-0.6%	0.6%
	mortgage debt	69.8%	71.1%	71.1%	70.5%	74.7%	74.3%	4.5%	-0.4%
	credit card debt	47.3%	43.8%	50.9%	45.5%	40.5%	48.6%	1.3%	8.2%
	other debt	64.5%	59.8%	61.3%	60.1%	55.2%	63.8%	-0.8%	8.6%
Median real levels of	total debt	\$74,036	\$97,263	\$102,672	\$117,486	\$129,474	166,700	125.2%	28.8%
	mortgage debt	\$73,303	\$93,572	\$102,179	\$115,933	\$117,161	\$155,000	111.5%	32.3%
	credit card debt	\$2,932	\$2,504	\$3,078	\$3,246	\$3,195	\$3,020	3.0%	-5.5%
	other debt	\$17,593	\$15,815	\$16,004	\$19,709	\$21,302	\$21,000	19.4%	-1.4%
	net worth	278,787	\$217,062	\$199,373	\$265,544	\$324,856	\$318,400	14.2%	-2.0%
Median share of payments relative to income for families with any of the respective debt	total debt	14.2%	15.5%	14.4%	14.9%	14.5%	16.2%	2.0%	1.8%
	mortgage debt	10.4%	11.3%	11.6%	11.5%	10.8%	11.9%	1.5%	1.1%
	credit card debt	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	-0.1%	-0.0%
Share of households with	total debt service payments above 40% of income	3.9%	4.5%	3.9%	6.0%	5.3%	3.5%	-0.4%	-1.8%
	mortgage debt service payments above 40% of income	1.3%	1.3%	0.4%	0.8%	0.8%	0.2%	-1.0%	-0.6%
	credit card debt service payments above 10% of income	0.0%	0.0%	3.9%	0.5%	1.0%	0.3%	0.3%	-0.8%
Median ratio to income of	total debt	63.3%	82.8%	82.1%	87.4%	88.6%	115.6%	52.3%	27.0%
	mortgage debt	66.1%	77.8%	79.9%	83.3%	84.0%	108.8%	42.7%	24.8%
	credit card debt	2.5%	2.4%	2.6%	2.6%	2.4%	2.3%	-0.3%	-0.1%

IV.2 Union Coverage

An important factor determining debt levels could be whether a household is covered by a union contract at work or not. Specifically, union members tend to enjoy higher wages and better benefits than non-union members. This means that they have better access to credit, but also fewer reasons to borrow money.

The data show an ambiguous relationship between debt and union membership. Union members tend to have more debt, in absolute terms and relative to income. They also saw larger increases in debt than non-union members from 2001 to 2004 (tables 9 and 10). And they had larger debt payments relative to income than non-union members in 2004. Yet, their total wealth was substantially higher than that of non-union members, and the typical wealth of union families grew by 12.1 percent, while it declined for non-union families by 3.7 percent from 2001 to 2004. Also, the share of union households with debt payments greater than 40 percent was smaller than the respective share of non-

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	78.8%	81.3%	82.4%	82.9%	83.0%	82.6%	3.7%	-0.4%
	mortgage debt	45.9%	46.6%	48.0%	48.6%	50.5%	52.9%	7.0%	2.4%
	credit card debt	45.8%	51.1%	51.1%	50.9%	49.5%	50.9%	5.1%	1.4%
	other debt	54.4%	54.2%	55.9%	55.6%	53.9%	55.8%	1.4%	1.9%
Median real levels of	total debt	28,735	\$29,060	\$33,239	\$42,026	\$47,930	\$70,000	143.6%	46.1%
	mortgage debt	54,244	\$65,896	\$67,709	\$77,675	\$80,948	102,000	88.0%	26.0%
	credit card debt	\$1,466	\$1,516	\$1,970	\$2,087	\$2,130	\$2,400	63.7%	12.7%
	other debt	\$9,676	\$8,896	\$9,849	\$11,593	\$12,781	13,100	35.4%	2.5%
	net worth	\$52,092	\$42,898	\$38,619	\$44,889	\$53,788	\$51,820	-0.5%	-3.7%
Median share of payments relative to income for families with any of the respective debt	total debt	17.1%	17.3%	17.1%	18.1%	17.6%	18.4%	1.3%	0.9%
	mortgage debt	14.1%	16.4%	16.1%	16.3%	15.4%	16.4%	2.3%	1.0%
	credit card debt	0.5%	0.7%	0.8%	0.8%	0.7%	0.8%	0.3%	0.1%
Share of households with	total debt service payments above 40% of income	11.8%	12.4%	12.1%	14.9%	13.1%	13.6%	1.8%	0.4%
	mortgage debt service payments above 40% of income	6.2%	8.8%	9.1%	9.5%	8.6%	8.3%	2.1%	-0.3%
	credit card debt service payments above 10% of income	0.9%	2.5%	2.7%	4.9%	2.9%	3.6%	2.7%	0.8%
Median ratio to income of	total debt	55.9%	70.6%	75.0%	83.0%	88.3%	115.6%	59.6%	27.2%
	mortgage debt	85.7%	106.7%	113.1%	120.0%	118.9%	147.7%	62.0%	28.8%
	credit card debt	3.2%	4.0%	4.8%	4.8%	4.3%	5.0%	1.8%	0.7%

Table 10: Union Families

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	87.8%	85.5%	87.8%	88.7%	87.9%	88.5%	0.7%	0.6%
	mortgage debt	56.7%	56.0%	57.9%	62.6%	58.3%	62.5%	5.8%	4.2%
	credit card debt	57.7%	55.5%	60.5%	55.7%	57.5%	58.9%	1.2%	1.3%
	other debt	60.1%	56.7%	61.1%	59.9%	60.5%	65.4%	5.3%	4.8%
Median real levels of	total debt	\$33,573	34,266	42,817	\$59,474	\$54,640	\$83,220	147.9%	52.3%
	mortgage debt	\$43,982	\$52,717	\$66,478	\$71,878	\$79,883	\$96,000	118.3%	20.2%
	credit card debt	\$1,466	\$1,318	\$2,093	\$2,435	\$2,663	\$2,400	63.7%	-9.9%
	other debt	\$10,262	\$9,225	\$10,218	\$12,753	\$12,781	\$14,000	36.4%	9.5%
	net worth	\$60,636	\$56,433	\$53,552	\$52,518	\$67,911	\$76,150	25.6%	12.1%
Median share of payments relative to income for families with any of the respective debt	total debt	16.0%	17.2%	17.4%	18.8%	17.1%	20.2%	4.2%	3.0%
	mortgage debt	12.8%	14.5%	15.2%	15.6%	14.2%	16.7%	3.9%	2.6%
	credit card debt	0.4%	0.5%	0.6%	0.7%	0.7%	0.6%	0.1%	-0.1%
Share of households with	total debt service payments above 40% of income	6.9%	10.3%	9.4%	10.4%	9.1%	10.9%	4.0%	1.7%
	mortgage debt service payments above 40% of income	2.4%	6.4%	5.3%	5.4%	3.6%	6.8%	4.4%	3.2%
	credit card debt service payments above 10% of income	0.2%	0.0%	1.3%	1.5%	1.8%	1.1%	1.0%	-0.6%
Median ratio to income of	total debt	61.7%	65.0%	77.5%	98.8%	81.5%	125.9%	64.3%	44.4%
	mortgage debt	77.4%	87.5%	102.0%	113.3%	102.0%	145.0%	67.6%	43.0%
	credit card debt	2.6%	3.0%	3.8%	4.4%	4.3%	3.5%	0.9%	-0.8%

union members. The data thus suggest that union members were more likely to use debt as a tool to build wealth than non-union members and that union members have been better at preventing heavy indebtedness. The comparison between union and non-union households shows the link between debt and investment in the clearest form. Even though union families saw larger debt increases and had higher debt levels in 2004 than non-union families, their wealth rose and they had more wealth in 2004. The figures are thus consistent with a view that union families borrowed money to build wealth, while non-union families borrowed money to make ends meet.

IV.3 Race

Debt levels vary widely by race. White families had more debt in 2004 than minority families (tables 11 through 13). For instance, the median white family had at least twice as much real debt in 2004 (\$66,000) as the typical minority family did. Relative to income, the difference is not quite as stark, but it is still significant. White families typically had a debt to income ratio of 113 percent in 2004, compared to 75.6 percent for black families and 80 percent for Hispanic families.

Both white and non-white families increased their debt rather rapidly from 2001. The largest increases, relative to income, were noticeable for white families, followed by Hispanic families (tables 11 and 13). At the same time, non-white families increased their mortgage debt more and their credit card debt less than white families.

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	69.1%	71.6%	73.5%	73.2%	74.5%	76.3%	7.2%	1.8%
	mortgage debt	41.9%	42.2%	43.3%	45.4%	46.1%	49.4%	7.5%	3.3%
	credit card debt	41.3%	44.2%	47.1%	44.3%	43.3%	46.1%	4.7%	2.7%
	other debt	46.3%	45.9%	47.4%	47.2%	47.7%	50.4%	4.1%	2.6%
Median real levels of	total debt	\$28,794	\$29,917	\$33,239	\$46,373	\$47,930	\$66,000	129.2%	37.7%
	mortgage debt	\$49,846	\$57,989	\$66,478	\$73,038	\$79,883	\$98,000	96.6%	22.7%
	credit card debt	\$1,466	\$1,384	\$1,847	\$2,319	\$2,130	\$2,500	70.5%	17.4%
	other debt	\$10,263	\$8,975	\$9,726	\$12,173	\$12,781	\$13,500	31.5%	5.6%
	net worth	\$86,791	\$71,169	\$66,232	\$74,893	\$92,557	\$95,000	9.5%	2.6%
Median share of payments relative to income for families with any of the respective debt	total debt	15.9%	16.8%	16.7%	17.8%	16.7%	18.3%	2.5%	1.6%
	mortgage debt	13.2%	16.0%	15.7%	15.8%	14.8%	20.5%	7.3%	5.7%
	credit card debt	0.5%	0.6%	0.8%	0.8%	0.7%	0.9%	0.4%	0.1%
Share of households with	total debt service payments above 40% of income	10.4%	12.1%	11.2%	14.3%	11.6%	11.9%	1.5%	0.3%
	mortgage debt service payments above 40% of income	5.9%	8.1%	8.8%	9.4%	7.2%	7.3%	1.4%	0.2%
	credit card debt service payments above 10% of income	1.0%	2.6%	3.6%	5.7%	3.1%	3.7%	2.7%	0.6%
Median ratio to income of	total debt	54.9%	69.5%	73.3%	87.0%	82.6%	112.9%	58.0%	30.3%
	mortgage debt	80.0%	100.0%	111.1%	114.1%	112.9%	142.9%	62.9%	30.0%
	credit card debt	2.9%	3.7%	45.7%	5.1%	4.3%	5.1%	2.2%	0.8%

Table 12: African Americans

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	55.5%	65.1%	65.1%	66.1%	72.3%	68.7%	13.2%	-3.6%
	mortgage debt	24.7%	26.8%	26.1%	29.0%	35.6%	34.2%	9.5%	-1.4%
	credit card debt	33.4%	43.3%	45.3%	42.3%	52.1%	46.9%	13.6%	-5.1%
	other debt	33.6%	39.6%	43.0%	43.4%	45.4%	47.5%	13.9%	2.1%
Median real levels of	total debt	\$8,796	\$8,171	\$9,726	\$16,231	\$21,302	\$29,000	229.7%	36.1%
	mortgage debt	\$20,525	\$30,312	\$30,777	\$66,082	\$56,450	\$70,000	241.1%	24.0%
	credit card debt	\$880	\$923	\$1,231	\$1,043	\$1,598	\$1,350	53.5%	-15.5%
	other debt	\$7,330	\$5,931	\$7,387	\$7,652	\$10,438	\$10,590	44.5%	1.5%
	net worth	\$1,950	\$5,799	\$2,992	\$7,002	\$6,710	\$6,500	233.4%	-3.1%
Median share of payments relative to income for families with any of the respective debt	total debt	15.9%	13.2%	14.6%	16.6%	17.5%	18.2%	2.3%	0.7%
	mortgage debt	14.8%	15.8%	18.5%	19.5%	16.2%	20.5%	5.7%	4.3%
	credit card debt	0.5%	0.6%	0.7%	0.6%	0.7%	0.7%	0.2%	0.0%
Share of households with	total debt service payments above 40% of income	12.1%	13.5%	15.6%	22.0%	15.9%	17.5%	5.4%	1.6%
	mortgage debt service payments above 40% of income	7.0%	17.1%	16.2%	22.0%	12.9%	16.5%	9.5%	3.6%
	credit card debt service payments above 10% of income	3.2%	5.1%	5.8%	6.8%	2.4%	6.6%	3.4%	4.2%
Median ratio to income of	total debt	27.3%	32.0%	40.0%	59.7%	66.4%	75.6%	48.3%	9.2%
	mortgage debt	56.0%	82.4%	84.6%	138.6%	114.3%	153.8%	97.8%	39.6%
	credit card debt	2.9%	3.7%	4.0%	3.3%	4.0%	4.2%	1.3%	0.2%

Still, even with higher total debt levels, white families ended up with more wealth than non-white families. Median non-retirement wealth was vastly larger for white families than for non-white families. Moreover, non-retirement wealth for white families grew faster than that of black families and about as fast as that of Hispanic families from 2001 to 2004.

However, because more expensive credit card debt expanded faster for white families than for non-white families, their debt payments also rose faster, relative to income. From 2001 to 2004, debt payments relative to income increased by 1.6 percentage points for white families, more than twice as fast as for black families and more than three times as fast as for Hispanic families. By 2004, the typical debt payments of white families were 18.3 percent of income, about the same as those of non-white families.

Although debt payments were fairly equal for the typical white and non-white family, it is important to keep in mind that heavy indebtedness was less pronounced among white families than among non-white families. The share of white families who used at least 40 percent of their income for debt payments stayed flat at 12 percent between 2001 and 2004. The respective share for blacks went up by 1.6 percentage points to 17.5 percent and by 4.9 percentage points to 22.0 percent for Hispanics (tables 11 through 13).

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	63.2%	58.7%	73.9%	70.4%	68.6%	68.4%	5.2%	-0.1%
	mortgage debt	30.8%	25.2%	33.9%	27.4%	31.9%	34.4%	3.6%	2.5%
	credit card debt	34.7%	39.8%	56.1%	46.3%	43.5%	46.9%	12.2%	3.5%
	other debt	40.5%	37.0%	47.3%	46.9%	41.8%	40.8%	0.2%	-1.1%
Median real levels of	total debt	\$17,593	\$14,734	21,790	\$16,405	\$17,042	\$33,000	87.6%	93.6%
	mortgage debt	\$60,109	\$68,532	\$61,554	\$60,285	\$78,817	\$92,000	53.1%	16.7%
	credit card debt	\$1,466	\$2,241	\$1,724	\$1,391	\$1,704	\$1,750	19.4%	2.7%
	other debt	\$8,796	\$6,326	\$8,618	\$10,550	\$7,243	\$11,000	25.1%	51.9%
	net worth	\$1,466	\$1,318	\$2,832	\$2,539	\$2,876	\$3,000	104.6%	4.3%
Median share of payments relative to income for families with any of the respective debt	total debt	19.2%	18.8%	16.1%	16.0%	17.7%	18.3%	-0.9%	0.5%
	mortgage debt	17.6%	21.8%	23.2%	22.4%	21.0%	20.1%	2.5%	-0.9%
	credit card debt	0.6%	0.9%	0.8%	0.6%	0.9%	0.8%	0.1%	-0.1%
Share of households with	total debt service payments above 40% of income	18.7%	17.7%	22.5%	17.2%	17.0%	21.9%	3.2%	4.9%
	mortgage debt service payments above 40% of income	16.9%	27.5%	30.0%	21.2%	16.1%	22.1%	5.3%	6.0%
	credit card debt service payments above 10% of income	2.7%	0.1%	3.1%	7.7%	2.8%	4.2%	1.6%	1.4%
Median ratio to income of	total debt	60.9%	67.8%	64.6%	50.0%	53.9%	80.0%	19.1%	26.1%
	mortgage debt	121.7%	154.5%	172.1%	153.1%	148.1%	191.7%	70.0%	43.5%
	credit card debt	3.8%	5.5%	4.7%	3.5%	5.2%	4.7%	0.9%	-0.5%

IV.4 Age

A number of observers have pointed at the rise in debt levels among young families. One explanation has been increasing marketing efforts targeting young people, especially on college campuses, by credit card companies (Warren and Tyagi, 2003; Draut, 2005; Draut and Silvia, 2004; Manning, 2000). Another factor is the sharp rise in student loans, which seems to be related to the decline in some grants available to students to finance higher education (Boushey, 2005; King and Bannon, 2002; Lilly, 2004; Weller, 2006).

Also, a greater share of older households appear to carry more debt than in the past (McGhee and Draut, 2004). This could make it harder for many households to improve their retirement savings. Already, a large share of households is inadequately prepared for retirement (Weller and Wolff, 2005). Moreover, households 65 and older have seen the sharpest increase in bankruptcy filings out of any age group from 1991 to 2001 (Sullivan et al., 2001). Hence, public policy makers interested in improving retirement income security should consider the implication of increasing debt among older households.

Table 14: Families 18 to 24 Years Old

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	48.1%	67.0%	73.3%	67.3%	70.2%	71.6%	23.6%	1.4%
	mortgage debt	9.3%	11.1%	15.5%	10.5%	11.9%	15.4%	6.1%	3.4%
	credit card debt	30.1%	44.3%	45.8%	41.6%	45.3%	42.8%	12.6%	-2.6%
	other debt	33.0%	52.4%	56.3%	48.8%	56.4%	55.4%	22.4%	-1.0%
Median real levels of	total debt	\$2,932	\$6,721	\$10,957	\$10,666	\$10,172	\$11,200	282.0%	10.1%
	mortgage debt	\$65,973	\$71,168	\$80,020	\$83,472	\$85,208	\$99,000	50.1%	16.2%
	credit card debt	\$1,070	\$949	\$1,354	\$1,275	\$1,172	\$970	-9.4%	-17.2%
	other debt	\$8,796	\$7,380	\$9,849	\$11,593	\$12,781	\$10,000	13.7%	-21.8%
	net worth	\$440	\$-	\$-	\$-	\$-	\$-		
Median share of payments relative to income for families with any of the respective debt	total debt	13.8%	13.0%	16.8%	13.1%	12.9%	12.0%	-1.8%	-0.9%
	mortgage debt	16.9%	18.0%	18.9%	18.1%	16.5%	23.1%	6.2%	6.6%
	credit card debt	0.6%	0.9%	1.1%	1.2%	1.0%	0.9%	0.2%	-0.1%
Share of households with	total debt service payments above 40% of income	11.0%	14.1%	21.0%	21.2%	12.2%	14.2%	3.2%	2.0%
	mortgage debt service payments above 40% of income	8.8%	9.0%	7.7%	9.4%	8.4%	15.6%	6.8%	7.2%
	credit card debt service payments above 10% of income	1.7%	3.1%	5.8%	11.6%	2.7%	5.1%	3.4%	2.4%
Median ratio to income of	total debt	13.3%	45.7%	48.6%	52.0%	41.3%	63.0%	49.7%	21.7%
	mortgage debt	122.4%	131.1%	150.0%	137.4%	141.5%	243.3%	120.9%	101.8%
	credit card debt	3.8%	5.6%	6.8%	7.3%	6.1%	5.2%	1.5%	-0.9%

Drowning in Debt: America's Middle Class Falls Deeper in Debt as Income Growth Slows and Costs Climb

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	82.6%	82.6%	84.3%	85.5%	87.7%	87.6%	5.0%	-0.0%
	mortgage debt	57.5%	55.4%	54.0%	58.1%	58.7%	62.2%	4.6%	3.5%
	credit card debt	50.5%	50.9%	55.9%	51.3%	54.1%	58.8%	8.4%	4.7%
	other debt	60.0%	55.5%	58.0%	57.1%	56.7%	58.4%	-1.7%	1.6%
Median real levels of	total debt	\$46,548	\$48,618	\$47,766	\$66,082	\$67,101	\$86,730	86.3%	29.3%
	mortgage debt	\$58,643	\$68,532	\$73,865	\$81,153	\$85,208	\$110,000	87.6%	29.1%
	credit card debt	\$1,466	\$1,582	\$2,339	\$2,319	\$2,130	\$2,500	70.5%	17.4%
	other debt	\$10,263	\$9,884	\$8,741	\$10,434	\$12,781	\$13,000	26.7%	1.7%
	net worth	\$63,774	\$39,538	\$36,945	\$39,081	\$41,326	\$37,350	-41.4%	-9.6%
Median share of payments relative to income for families with any of the respective debt	total debt	18.9%	19.4%	18.4%	19.8%	18.0%	20.8%	1.9%	2.8%
	mortgage debt	13.6%	18.0%	16.6%	16.4%	14.9%	15.4%	1.8%	0.5%
	credit card debt	0.5%	0.6%	0.7%	0.8%	0.6%	0.7%	0.3%	0.1%
Share of households with	total debt service payments above 40% of income	8.7%	13.1%	10.9%	13.8%	10.7%	13.5%	4.8%	2.8%
	mortgage debt service payments above 40% of income	3.1%	10.6%	8.0%	7.6%	6.5%	8.7%	5.6%	2.1%
	credit card debt service payments above 10% of income	0.1%	2.5%	3.0%	4.8%	2.9%	4.2%	4.1%	1.2%
Median ratio to income of	total debt	70.8%	94.7%	93.0%	102.3%	102.0%	136.9%	66.2%	34.9%
	mortgage debt	85.7%	119.1%	123.7%	122.4%	116.4%	158.2%	72.5%	41.8%
	credit card debt	2.7%	3.8%	4.3%	4.7%	3.7%	4.5%	1.7%	0.8%

In 2004, all age groups reached the highest debt levels, although there was substantial variation by age. While households in the age group 35 to 44 typically had \$86,730 in debt, young families owed \$11,200 and families 65 and older owed \$17,500.

These differences change somewhat when debt levels are set in relation to total income. For the typical family between the ages of 35 and 44, total debt amounted to 137 percent of income, for young families it was 63 percent, and for families 65 and older it was 53 percent.

From 2001 to 2004, debt growth increased with age. Total debt among young families grew by only 10.1 percent, compared to 29.3 percent for households headed by someone between the ages of 35 and 44 and 49.4 percent for households headed by somebody 65 and older (tables 14 through 16).

Table 16: Families 65 and Older

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	34.7%	41.0%	40.0%	37.1%	41.9%	47.8%	13.2%	5.9%
	mortgage debt	14.6%	13.5%	15.4%	17.3%	19.5%	22.3%	7.8%	2.9%
	credit card debt	20.0%	27.0%	24.6%	20.6%	24.3%	27.7%	7.6%	3.4%
	other debt	15.1%	17.9%	15.2%	16.3%	18.6%	23.9%	8.8%	5.3%
Median real levels of	total debt	\$6,158	\$4,481	\$5,786	\$11,593	\$11,716	\$17,500	184.2%	49.4%
	mortgage debt	\$14,661	\$22,405	\$23,391	\$33,621	\$46,864	\$47,000	220.6%	0.3%
	credit card debt	\$748	\$791	\$776	\$1,159	\$959	\$1,800	140.7%	87.8%
	other debt	\$7,330	\$5,931	\$7,387	\$9,970	\$8,201	\$9,000	22.8%	9.7%
	net worth	03,358	\$109,453	\$110,674	42,557	\$151,255	\$151,600	46.7%	0.2%
Median share of payments relative to income for families with any of the respective debt	total debt	11.1%	9.5%	8.6%	12.1%	12.4%	14.2%	3.1%	1.7%
	mortgage debt	15.0%	16.6%	15.7%	17.1%	18.9%	17.6%	2.6%	-1.3%
	credit card debt	0.5%	0.7%	0.6%	0.8%	0.7%	1.2%	0.8%	0.6%
Share of households with	total debt service payments above 40% of income	11.8%	10.2%	8.8%	22.6%	15.9%	14.6%	2.8%	-1.2%
	mortgage debt service payments above 40% of income	10.0%	14.7%	11.6%	26.9%	18.2%	17.2%	7.2%	-1.1%
	credit card debt service payments above 10% of income	1.3%	6.3%	5.4%	13.7%	3.3%	6.9%	5.7%	3.6%
Median ratio to income of	total debt	24.2%	18.7%	21.1%	35.1%	33.0%	53.3%	29.1%	20.3%
	mortgage debt	2.9%	4.2%	3.6%	4.8%	3.9%	138.8%	135.9%	134.9%
	credit card debt	36.8%	83.3%	84.6%	105.3%	104.5%	7.4%	-29.5%	-97.2%

The crucial measure is not how much debt households have, but how much they pay for it. For young households, the typical debt payments declined slightly from 2001 to 2004, while they increased for older households. The largest increase was for households between the ages of 35 and 44 with 2.8 percentage points in debt payments relative to income. These households also had much larger debt payments relative to income than either younger or older households. The median debt payment relative to income was 20.8 percent for families between the ages of 35 and 44.

Also, the share of families between the ages of 35 and 44 with debt payments greater than 40 percent of income rose more sharply than for other age group. In 2004, 13.5 percent of households in this age group had debt payments greater than 40 percent of income, up from 10.7 percent in 2001. Thus, this share of heavily indebted families was getting closer to the respective shares for younger and older households (tables 14 through 16).

IV.5 Family Status

Another distribution worthy of note is by family status. Typically, married couples, for instance, tend to have more wealth, even after controlling for family size, than single men, who in turn tend to have more savings than single women (Weller and Wolff, 2005). The question then is whether debt trends differ by family status.

The data show that married couples are more heavily indebted than single men, who in turn have larger debt levels than single women. This is true for real debt levels as well as debt to income ratios. The typical ratio of debt to income for married couples was 114.2 percent, while it was 107.5 percent for single men and 82.4 percent for single women (tables 17 through 19).

In comparison, real debt levels grew fastest for single women, followed by single men and married couples. However, compared to income, debt rose

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	78.9%	79.2%	79.7%	81.0%	80.9%	80.9%	2.0%	0.0%
	mortgage debt	51.7%	50.7%	52.3%	55.3%	55.2%	57.0%	5.3%	1.8%
	credit card debt	46.7%	49.3%	52.9%	49.9%	46.6%	49.9%	3.2%	3.3%
	other debt	55.4%	53.4%	55.0%	54.3%	52.6%	56.9%	1.6%	4.3%
Median real levels of	total debt	\$35,186	\$37,469	\$45,550	\$58,140	\$61,350	\$84,000	138.7%	36.9%
	mortgage debt	\$51,312	\$59,307	\$67,709	\$77,675	\$85,208	\$106,000	106.6%	24.4%
	credit card debt	\$1,466	\$1,502	\$1,970	\$2,319	\$2,237	\$2,400	63.7%	7.3%
	other debt	\$10,263	\$9,753	\$10,464	\$13,912	\$13,846	\$15,000	46.2%	8.3%
	net worth	\$95,294	\$74,568	\$67,894	\$84,863	99,363	\$106,400	11.7%	7.1%
Median share of payments relative to income for families with any of the respective debt	total debt	17.1%	17.3%	17.4%	18.8%	17.3%	18.3%	1.2%	1.0%
	mortgage debt	13.1%	15.2%	14.8%	15.5%	14.2%	15.0%	1.9%	0.8%
	credit card debt	0.5%	0.6%	0.7%	0.6%	0.6%	0.7%	0.2%	0.1%
Share of households with	total debt service payments above 40% of income	9.4%	11.6%	10.8%	14.1%	11.2%	11.7%	2.3%	0.5%
	mortgage debt service payments above 40% of income	5.0%	6.6%	6.6%	7.8%	5.7%	6.6%	1.6%	0.8%
	credit card debt service payments above 10% of income	1.0%	1.4%	1.8%	3.8%	2.0%	2.7%	1.7%	0.7%
Median ratio to income of	total debt	60.0%	71.0%	78.8%	93.3%	88.6%	114.2%	54.2%	25.6%
	mortgage debt	78.0%	93.9%	103.8%	111.8%	106.2%	133.3%	55.3%	27.1%
	credit card debt	2.8%	3.4%	4.0%	3.8%	3.6%	4.0%	1.2%	0.4%

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	54.7%	58.6%	66.8%	65.3%	65.5%	65.2%	10.6%	-0.2%
	mortgage debt	22.4%	20.1%	24.9%	26.4%	29.2%	32.6%	10.2%	3.4%
	credit card debt	27.1%	33.2%	40.2%	34.3%	39.8%	35.6%	8.5%	-4.2%
	other debt	32.0%	37.6%	41.3%	44.6%	43.9%	38.7%	6.7%	-5.2%
Median real levels of	total debt	\$10,702	\$11,861	\$14,896	\$17,622	\$21,302	\$31,430	193.7%	47.5%
	mortgage debt	57,177	52,717	\$61,554	\$61,444	\$63,906	\$82,000	43.4%	28.3%
	credit card debt	\$1,026	\$1,318	\$1,354	\$1,971	\$1,704	\$2,000	94.9%	17.4%
	other debt	\$7,330	\$6,853	\$8,002	\$10,086	\$10,225	\$10,000	36.4%	-2.2%
	net worth	\$12,901	\$20,757	\$20,128	\$17,216	\$28,864	\$41,200	219.3%	42.7%
Median share of payments relative to income for families with any of the respective debt	total debt	14.9%	12.0%	13.0%	15.4%	16.3%	19.0%	4.1%	2.7%
	mortgage debt	14.9%	20.3%	20.2%	18.0%	18.0%	22.8%	7.9%	4.8%
	credit card debt	0.5%	0.9%	0.7%	1.1%	1.1%	0.9%	0.4%	-0.1%
Share of households with	total debt service payments above 40% of income	15.5%	14.9%	15.2%	16.3%	14.4%	16.5%	0.9%	2.1%
	mortgage debt service payments above 40% of income	12.2%	20.3%	19.9%	15.8%	16.0%	15.4%	3.2%	-0.6%
	credit card debt service payments above 10% of income	4.2%	8.4%	8.2%	10.5%	6.0%	9.6%	5.4%	3.5%
Median ratio to income of	total debt	35.1%	39.4%	40.0%	52.0%	62.5%	107.5%	72.4%	45.0%
	mortgage debt	100.0%	116.7%	146.0%	130.0%	139.4%	196.3%	96.3%	56.9%
	credit card debt	2.9%	5.4%	4.0%	6.9%	6.3%	5.5%	2.5%	-0.9%

fastest for single men, followed by single women and married couples. The debt to income ratio for single men rose by 45.0 percentage points from 2001 to 2004, compared to 27.4 percentage points for single women and 27.1 percentage points for married couples.

Still, even in the face of more rapidly growing debt levels, single male headed households managed to increase their wealth faster than other groups. Non-retirement wealth grew by 42.7 percent for single men from 2001 to 2004, compared to 25.7 percent for single women (tables 18 and 19).

Yet, as a result of the rather rapid expansion of credit among single men, their share of debt payments relative to income also rose fastest. By 2004, single men typically used 19.0 percent of their income to pay for their debt, an increase of 2.7 percentage points from 2001 — a larger increase than for any other group. Thus, 2004 was the first year since 1989 in which single men paid a larger share of their income for debt payments than married couples.

Drowning in Debt: America's Middle Class Falls Deeper in Debt as Income Growth Slows and Costs Climb

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	47.8%	56.6%	59.2%	56.8%	61.1%	64.7%	16.9%	3.5%
	mortgage debt	19.3%	22.8%	22.9%	21.5%	23.5%	29.8%	10.4%	6.3%
	credit card debt	30.9%	37.6%	39.0%	36.8%	41.6%	43.9%	13.0%	2.3%
	other debt	26.8%	29.6%	32.4%	31.6%	34.9%	37.7%	10.9%	2.8%
Median real levels of	total debt	\$6,597	\$7,908	\$10,587	11,582	12,781	\$20,000	203.2%	56.5%
	mortgage debt	\$30,787	\$40,856	\$45,550	\$59,126	57,515	\$73,000	137.1%	26.9%
	credit card debt	\$1,026	\$988	\$1,477	\$1,623	\$1,385	\$1,900	85.1%	37.2%
	other debt	\$4,911	\$5,404	\$6,155	\$8,115	\$8,414	\$9,000	83.3%	7.0%
	net worth	\$13,195	23,854	21,101	\$23,419	\$16,951	\$21,300	61.4%	25.7%
Median share of payments relative to income for families with any of the respective debt	total debt	14.7%	15.6%	13.8%	15.4%	15.5%	17.6%	2.9%	2.1%
	mortgage debt	16.3%	20.7%	21.9%	22.8%	21.6%	23.3%	7.0%	1.7%
	credit card debt	0.6%	0.7%	1.1%	1.1%	1.0%	1.2%	0.6%	0.2%
Share of households with	total debt service payments above 40% of income	15.0%	14.7%	15.0%	19.0%	16.6%	17.3%	2.3%	0.7%
	mortgage debt service payments above 40% of income	13.2%	21.0%	22.6%	27.0%	19.5%	17.9%	4.7%	-1.6%
	credit card debt service payments above 10% of income	1.0%	3.5%	7.1%	10.1%	3.8%	9.6%	8.6%	5.7%
Median ratio to income of	total debt	31.3%	36.8%	52.2%	55.4%	55.0%	82.3%	51.1%	27.3%
	mortgage debt	80.0%	125.5%	138.0%	152.9%	155.0%	204.2%	124.2%	49.2%
	credit card debt	3.5%	4.5%	6.9%	6.4%	6.1%	7.1%	3.6%	0.9%

In the same vein, the share of heavily indebted households rose much faster for single men than for either of the other two groups. The share of single male headed households with debt payments at or above 40 percent of income rose by 2.1 percentage points from 2001 to 2004, as compared to an increase of less than one-fourth of this rate for married couples and one-third of this rate for single women. Thus in 2004, 16.5 percent of single men were heavily indebted as compared to 17.3 percent for single women. Just 11.7 percent of married couples were heavily indebted. This is a difference of 0.8 percentage points between single men and single women, down from a difference of 2.2 percentage points in 2001.

IV.6 Education

Another demographic grouping of interest is the development of household debt by educational attainment. The link between debt and educational attainment is unclear. Households with more schooling may have increased their debt faster than others due to higher costs of education. However, households with less education may have also increased their debt levels, potentially because of lower income growth.

Debt increases with educational attainment. Households with at least a college degree owed 130.0 percent of income in 2004 and households with some college education owed 126.9 percent of their income in debt, while households with high school education owed 83.0 percent. Households with less than high school owed only 52.6 percent of their income, or less than half of that of households with at least some college education (Tables 20 through 23).

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	47.2%	47.7%	50.8%	51.0%	52.7%	50.4%	3.2%	-2.2%
	mortgage debt	21.8%	18.1%	23.3%	20.4%	24.9%	22.5%	0.7%	-2.4%
	credit card debt	23.4%	27.4%	32.4%	28.5%	30.0%	29.5%	6.1%	-0.5%
	other debt	28.0%	26.9%	30.4%	30.2%	27.0%	27.4%	-0.6%	0.4%
Median real levels of	total debt	\$11,729	\$7,249	\$11,695	\$10,550	12,781	\$12,000	2.3%	-6.1%
	mortgage debt	\$21,991	31,630	28,315	\$34,664	\$34,083	48,000	118.3%	40.8%
	credit card debt	\$894	\$949	\$1,231	\$1,333	\$1,033	\$1,200	34.2%	16.1%
	other debt	\$7,330	\$4,349	\$6,155	\$7,883	\$7,349	\$8,000	9.1%	8.9%
	net worth	\$30,348	\$19,835	\$21,113	\$15,651	\$16,509	\$10,000	-67.1%	-39.4%
Median share of payments relative to income for families with any of the respective debt	total debt	15.9%	15.5%	15.3%	16.2%	17.5%	17.9%	2.0%	0.4%
	mortgage debt	15.9%	21.2%	18.0%	17.2%	18.9%	22.0%	6.1%	3.1%
	credit card debt	0.5%	0.7%	0.8%	1.1%	0.7%	0.8%	0.4%	0.1%
Share of households with	total debt service payments above 40% of income	12.7%	17.2%	14.5%	18.4%	17.8%	20.5%	7.8%	2.7%
	mortgage debt service payments above 40% of income	14.6%	22.3%	18.5%	27.5%	22.4%	22.1%	7.5%	-0.3%
	credit card debt service payments above 10% of income	3.4%	5.8%	8.1%	11.9%	5.3%	8.3%	4.9%	3.0%
Median ratio to income of	total debt	33.3%	33.4%	48.4%	45.0%	44.3%	52.6%	19.3%	8.3%
	mortgage debt	65.0%	100.0%	100.0%	122.4%	122.2%	154.0%	89.0%	31.8%
	credit card debt	2.7%	4.5%	5.0%	6.3%	4.4%	4.8%	2.1%	0.5%

Drowning in Debt: America's Middle Class Falls Deeper in Debt as Income Growth Slows and Costs Climb

Table 21: Families with High School Education									
		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	64.3%	69.9%	72.6%	67.4%	72.5%	71.1%	6.8%	-1.4%
	mortgage debt	34.6%	36.4%	39.2%	38.5%	38.9%	40.4%	5.9%	1.6%
	credit card debt	40.8%	46.7%	49.8%	43.0%	46.4%	48.2%	7.4%	1.8%
	other debt	44.2%	43.3%	46.1%	43.9%	47.9%	45.4%	1.2%	-2.5%
Median real levels of	total debt	\$18,912	\$15,604	\$22,480	\$28,288	\$26,628	31,000	63.9%	16.4%
	mortgage debt	\$36,652	\$39,538	\$49,243	53,329	\$57,515	\$70,000	91.0%	21.7%
	credit card debt	\$1,320	\$1,318	\$1,477	\$1,623	\$1,811	\$1,901	44.1%	5.0%
	other debt	\$8,796	\$5,931	\$9,110	\$9,622	\$9,692	\$9,600	9.1%	-1.0%
	net worth	\$37,385	39,142	\$38,176	39,185	37,598	\$39,550	5.8%	5.2%
Median share of payments relative to income for families with any of the respective debt	total debt	16.6%	15.8%	17.1%	18.4%	16.9%	17.7%	1.1%	0.8%
	mortgage debt	13.4%	16.5%	16.4%	16.8%	16.7%	16.6%	3.2%	-0.1%
	credit card debt	0.5%	0.6%	0.7%	0.6%	0.7%	0.9%	0.3%	0.2%
Share of households with	total debt service payments above 40% of income	11.8%	12.1%	12.6%	13.9%	12.9%	14.0%	2.2%	1.2%
	mortgage debt service payments above 40% of income	6.0%	10.4%	10.3%	11.2%	8.3%	10.3%	4.3%	2.1%
	credit card debt service payments above 10% of income	1.9%	1.9%	2.1%	5.6%	3.2%	3.7%	1.8%	0.5%
Median ratio to income of	total debt	47.8%	44.7%	62.7%	69.2%	62.1%	83.0%	35.1%	20.8%
	mortgage debt	70.4%	90.9%	102.7%	100.0%	117.6%	135.8%	65.5%	18.2%
	credit card debt	3.2%	3.9%	4.3%	3.7%	4.2%	5.2%	2.0%	1.0%

Debt growth trended up with educational attainment. Households with less than high school degrees actually saw their debt levels fall in real terms. Yet, for the typical family in this group, debt fell, but income fell even faster. In addition, real debt levels grew fastest for households with college degrees with an increase of 28.7 percent from 2001 to 2004.

The same, though, is not true, when changes in debt relative to income are considered. Households with some college education had a larger increase than households headed by somebody with a college degree — 36.7 percentage points as compared to 35.3 percentage points (tables 22 and 23). This development is not surprising since the typical family headed by somebody with some college education saw the largest decline in income from 2001 to 2004 (table 1).

Not surprisingly, then, the payment burden rose fastest for households headed by somebody with some college education. The share of income used for debt payments rose by 3.6 percentage points for households with some college

Table 22: Families with Some College Education

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	78.1%	74.4%	79.2%	79.6%	79.7%	82.3%	4.2%	2.6%
	mortgage debt	47.0%	40.8%	39.2%	46.3%	44.0%	47.2%	0.3%	3.2%
	credit card debt	50.8%	49.4%	54.9%	53.1%	55.2%	54.4%	3.5%	-0.9%
	other debt	51.6%	45.5%	53.0%	52.5%	52.1%	57.1%	5.5%	5.0%
Median real levels of	total debt	\$28,735	247,645	\$23,760	\$51,010	\$39,728	\$45,000	56.6%	13.3%
	mortgage debt	\$48,380	\$51,399	\$62,785	\$81,153	\$76,687	85,000	75.7%	10.8%
	credit card debt	\$1,173	\$1,186	\$1,847	\$2,377	\$2,130	\$2,150	83.3%	0.9%
	other debt	\$10,262	\$10,148	\$8,248	\$11,593	\$11,716	13,000	26.7%	11.0%
	net worth	\$52,092	\$57,461	40,946	\$51,034	\$46,971	49,000	-5.9%	4.3%
Median share of payments relative to income for families with any of the respective debt	total debt	17.6%	16.3%	14.2%	18.6%	16.8%	20.3%	2.8%	3.6%
	mortgage debt	13.2%	16.9%	16.8%	17.0%	15.6%	19.8%	6.6%	4.2%
	credit card debt	0.4%	0.6%	0.8%	1.0%	0.9%	1.0%	0.6%	0.1%
Share of households with	total debt service payments above 40% of income	13.3%	11.8%	12.6%	18.9%	14.0%	16.2%	2.8%	2.1%
	mortgage debt service payments above 40% of income	8.8%	10.6%	12.3%	13.4%	10.0%	11.7%	2.9%	1.7%
	credit card debt service payments above 10% of income	0.8%	3.5%	4.6%	6.5%	3.0%	5.1%	4.3%	2.1%
Median ratio to income of	total debt	55.8%	71.4%	59.9%	97.1%	80.4%	117.1%	61.3%	36.7%
	mortgage debt	84.7%	105.8%	116.0%	130.4%	122.0%	166.7%	82.0%	44.6%
	credit card debt	2.7%	3.4%	4.9%	6.1%	5.5%	6.0%	3.3%	0.5%

education, more than twice as fast as for households with a college degree and more than four times as fast as for households without a high school degree. As a result, households headed by somebody with some college education had the largest debt payments relative to income with 20.3 percent in 2004 (table 22).

However, the share of heavily indebted households with less than a high school degree rose faster than the respective shares for the other groups. By 2004, more than one-fifth of households among households with less than high school education paid 40 percent or more of their income for debt payments, up 2.7 percentage points since 2001. In comparison, this ratio rose by less than half that rate for households with a high school education and was virtually unchanged for households with a college degree.

Drowning in Debt: America's Middle Class Falls Deeper in Debt as Income Growth Slows and Costs Climb

Table 23: Families with College Degrees									
		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	80.5%	81.6%	80.34%	83.1%	81.4%	83.3%	2.8%	1.9%
	mortgage debt	53.0%	52.2%	52.6%	53.6%	56.0%	59.1%	6.1%	3.2%
	credit card debt	46.0%	48.1%	48.9%	47.9%	43.4%	47.0%	1.0%	3.6%
	other debt	53.9%	56.2%	53.6%	54.5%	52.2%	56.4%	2.5%	4.2%
Median real levels of	total debt	\$52,192	\$54,035	\$61,123	\$69,560	\$82,332	\$106,000	103.1%	28.7%
	mortgage debt	\$67,439	\$79,075	\$88,638	\$90,428	\$99,054	\$123,000	82.4%	24.2%
	credit card debt	\$1,569	\$1,845	\$2,462	\$2,319	\$2,663	\$2,700	72.1%	1.4%
	other debt	\$10,262	\$11,861	\$11,080	\$15,651	\$15,977	\$17,000	65.7%	6.4%
	net worth	130,480	\$96,340	\$82,975	109,151	153,619	\$157,100	20.4%	2.3%
Median share of payments relative to income for families with any of the respective debt	total debt	15.9%	17.3%	17.0%	17.5%	16.8%	18.2%	2.3%	1.4%
	mortgage debt	13.2%	15.1%	15.9%	15.9%	14.2%	15.4%	2.1%	1.1%
	credit card debt	0.5%	0.6%	0.8%	0.7%	0.7%	0.8%	0.2%	0.1%
Share of households with	total debt service payments above 40% of income	9.1%	12.1%	11.1%	13.9%	10.5%	10.5%	1.5%	0.1%
	mortgage debt service payments above 40% of income	3.3%	6.9%	7.2%	7.1%	5.4%	6.3%	3.0%	0.9%
	credit card debt service payments above 10% of income	0.0%	1.9%	3.2%	4.2%	1.9%	3.3%	3.3%	1.4%
Median ratio to income of	total debt	68.1%	82.9%	88.5%	99.3%	94.7%	130.0%	61.9%	35.3%
	mortgage debt	89.2%	104.6%	117.5%	120.0%	111.4%	144.6%	55.4%	33.2%
	credit card debt	3.2%	3.6%	4.6%	4.4%	4.0%	4.5%	1.3%	0.5%

V. Proliferation of Credit Card Debt as Cost Driver

The trends in the previous section show which families had the largest debt burdens and who has seen the sharpest increases in debt struggles. One of the more regular features associated with high debt burdens was a disproportionate reliance on credit card debt. Although higher costs are not universally associated with more credit card debt, it seems a comparatively frequent connection.

For the total of households, the effect of credit card debt is only noticeable when looking at the heavily indebted share of households. Specifically, the share of households with mortgage payments in excess of 40 percent of income grew by 0.9 percentage points, whereas the share of households with credit card payments in excess of 10 percent of income increased with a 1.3 percentage point increase (table 2). Although credit card debt grew much slower than other forms of debt, its burden appears to have disproportionately grown among households with comparatively high credit card payments.

Further, the composition of debt changes with income. Although the shares of households with either mortgage or credit card debt rise with income, they do so faster for mortgage debt than for credit card debt through the fourth quintile. Low-income families are almost twice as likely to have credit card debt as mortgage debt, while households in the top quintile are 50 percent more likely to have mortgage debt than to have credit card debt.

Even though debt levels are typically lower among lower-income families, debt payments relative to income are relatively similar for the bottom, third and fourth quintiles. This disproportionate debt service burden is associated with the higher shares of households who are heavily indebted with credit card debt. In 2004, the share of households who had credit card payments in excess of 10 percent of income was 19.2 percent among low-income families, compared to five percent in the second quintile, two percent in the third quintile and zero percent in the fourth and fifth quintile (tables 3 through 7).

The comparatively high levels of debt payments relative to income for the third and fourth quintile seem to be associated with credit card debt. These two quintiles had the largest shares of households with any credit card debt: 55 percent each. Also, the typical credit card balance for each of these quintiles was as high or higher than for lower- or higher-income families. Further, the typical credit card balance grew at the second fastest rate for families in the fourth quintile (tables 5 and 6).

A similar relationship between credit card debt, debt payments and union status can be observed. A larger share of union households had credit card debt than

non-union households: 58.9 percent as compared to 50.9 percent in 2004. With median credit card amounts equal and median mortgage payments relatively equal, it is possible that the greater proliferation of credit card debt among union families contributed to their higher debt payments in 2004 (tables 8 and 9).

Further, there seems to be a different effect of mortgage payments and credit card payments on the share of heavily indebted households by race and ethnicity, even though payment levels relative to income are virtually identical across groups. While the growth in heavily indebted households, i.e., those with debt payments in excess of 40 percent of income, seemed to be related to both mortgage and credit card payments for blacks, it seemed to be more a phenomenon of more mortgage payments than credit card payments for Hispanics and whites. The share of households with mortgage payments greater than 40 percent of income increased by 3.6 percentage points for blacks, slightly less than the 4.2 percentage point increase in the share of black households with credit card payments above 10 percent of income. In comparison, the share of households with credit card payments above 10 percent increased by 0.8 percentage points for whites and by 1.4 percentage points for Hispanics (tables 10 through 12). The share of white households with mortgage payments above 40 percent grew by 5.7 percentage points and that of Hispanic households by 6.0 percentage points from 2001 to 2004. That is, credit card debt seemed to contribute to the rise in heavily indebted black families, while this was less the case among other families.

Moreover, the reduced debt burden for young families is likely a result of faster growth of mortgages than of credit card debt. This is also reflected in higher mortgage payments for those young households and smaller credit card payments for any young households with credit card debt. That is, the shift towards mortgage debt appears to have eased the debt burden for the typical young households slightly (table 14).

Another grouping, where credit card debt appears to be connected to higher debt levels is by education. Debt payments relative to income were the largest among families with some college education. More families in this group had credit card balances than among families, and the credit card balances were typically much larger for this group than for families with less educational attainment (tables 20 through 23). And the increase in mortgage payments relative to income was smaller for families with some college education than for families with less than a high school degree. Yet, the increase in total debt payments relative to income was larger for families with some college education than for any other group. That is, the larger proliferation of credit card debt among families with some college education may have contributed to the sharper increase in debt payments.

VI. Investment More Important Than Consumption in Driving Loan Burdens

As discussed earlier, families can borrow for two reasons. For one, they want to invest in their future, and second, they want to maintain a certain level of consumption, even in the face of fluctuating incomes. This section takes a closer look at families borrowing for investment purposes. When families borrow to invest it is typically for three reasons. First and foremost, families go into debt to finance the purchase of a new home or the renovation of an existing one. Second, families use debt to invest in a new car, the primary lifeline to their jobs for the vast majority of families.³ And third, middle-class families use debt to invest in their or their children's education. Data on all three loan types are provided in tables 24 through 26. For comparison reasons, data on loans for goods and services are presented in table 27.

Credit for homes is by far the largest reason for borrowing. By 2004, the median family with any such credit owed \$97,000, compared to \$11,000 for the median car loan and \$7,800 for the median education loan.

	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	\$46,914	\$54,035	\$62,785	\$70,719	\$76,687	\$97,000	106.8%	26.5%
Married	\$51,312	\$59,306	\$67,709	\$75,356	\$85,208	\$107,000	108.5%	25.6%
Single men	\$52,778	\$48,763	\$59,092	\$57,966	\$61,776	\$85,000	61.1%	37.6%
Single women	\$30,787	\$38,220	\$39,394	\$56,807	\$55,385	\$72,000	133.9%	30.0%
No H.S./GED	\$19,059	\$24,645	\$28,315	\$28,983	\$33,018	\$48,000	151.8%	45.4%
H.S./GED	\$35,186	\$38,879	\$49,243	\$51,010	\$55,385	\$70,000	98.9%	26.4%
Some college	\$49,846	\$52,717	\$62,785	\$78,834	\$76,687	\$87,780	76.1%	14.5%
College	\$67,439	\$77,757	\$92,331	\$92,746	\$100,119	\$125,000	85.4%	24.9%
18 to 24	-	-	-	-	-	-	-	-
35 to 44	\$58,643	\$71,168	\$73,865	\$81,153	\$85,208	\$110,000	87.6%	29.1%
Over 64	\$14,661	\$22,405	\$19,697	\$33,621	\$45,799	\$47,000	220.6%	2.6%
White	\$51,312	\$57,461	\$65,247	\$71,878	\$79,883	\$98,000	91.0%	22.7%
Black	\$19,059	\$28,994	\$28,315	\$60,285	\$53,788	\$70,000	267.3%	30.1%
Hispanic	\$60,109	\$63,260	\$60,323	\$48,692	\$78,817	\$96,000	59.7%	21.8%
Bottom income quintile	\$11,728	\$18,451	\$23,390	\$30,258	\$31,258	\$31,953	172.5%	2.2%
Second income quintile	\$29,321	\$25,040	\$35,701	\$42,895	\$43,669	\$55,000	87.6%	25.9%
Middle income quintile	\$38,118	\$45,468	\$52,936	\$57,966	\$61,776	\$80,000	109.9%	29.5%
Fourth income quintile	\$55,711	\$60,624	\$73,372	\$84,631	\$85,208	\$100,000	79.5%	17.4%
Top income quintile	\$73,303	\$96,208	\$110,797	\$121,730	\$118,226	\$161,000	119.6%	36.2%
Union	\$46,914	\$46,127	\$67,709	\$73,038	\$80,948	\$96,000	104.6%	18.6%
Non-union	\$54,244	\$63,260	\$67,709	\$75,356	\$80,948	\$106,000	95.4%	30.9%

³ According to the U.S. Census Bureau (2005c) 79.4 percent of workers drove themselves to work in 2003.

Table 25: Car Loans								
	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	\$8,796	\$7,380	\$8,371	\$9,854	\$9,905	\$11,000	25.1%	11.1%
Married	\$8,796	\$7,908	\$8,864	\$10,898	\$10,651	\$12,000	36.4%	12.7%
Single men	\$7,330	\$6,853	\$8,125	\$9,275	\$8,308	\$8,300	13.2%	-0.1%
Single women	\$5,864	\$5,272	\$5,294	\$7,768	\$7,669	\$8,500	45.0%	10.8%
No H.S./GED	\$7,330	\$3,954	\$6,155	\$9,506	\$8,308	\$8,900	21.4%	7.1%
H.S./GED	\$7,330	\$6,458	\$8,741	\$9,391	\$8,734	\$9,300	26.9%	6.5%
Some college	\$8,796	\$8,962	\$7,633	\$10,202	\$10,971	\$12,000	36.4%	9.4%
College	\$10,262	\$8,975	\$8,864	\$10,202	\$10,651	\$12,000	16.9%	12.7%
18 to 24	\$2,932	\$6,458	\$9,849	\$9,506	\$6,817	\$8,900	203.5%	30.6%
35 to 44	\$10,262	\$8,435	\$8,002	\$9,275	\$11,716	\$11,000	7.2%	-6.1%
Over 64	\$5,864	\$5,140	\$7,386	\$8,695	\$7,349	\$8,700	48.4%	18.4%
White	\$8,796	\$7,512	\$8,371	\$10,202	\$10,225	\$11,000	25.1%	7.6%
Black	\$7,330	\$8,303	\$8,371	\$6,608	\$10,438	\$8,500	16.0%	-18.6%
Hispanic	\$7,330	\$5,667	\$9,849	\$8,811	\$7,243	\$11,000	50.1%	51.9%
Bottom income quintile	\$2,932	\$2,504	\$4,063	\$4,637	\$5,432	\$6,200	111.5%	14.1%
Second income quintile	\$5,864	\$5,140	\$5,786	\$8,231	\$7,456	\$7,700	31.3%	3.3%
Middle income quintile	\$8,796	\$6,985	\$9,110	\$9,738	\$9,479	\$9,400	6.9%	-0.8%
Fourth income quintile	\$10,262	\$8,962	\$8,741	\$11,361	\$12,781	\$13,000	26.7%	1.7%
Top income quintile	\$11,729	\$10,675	\$10,957	\$15,071	\$12,781	\$16,000	36.4%	25.2%
Union	\$10,262	\$7,512	\$9,233	\$11,593	\$9,799	\$11,000	7.2%	12.3%
Non-union	\$8,796	\$7,776	\$8,371	\$9,622	\$10,544	\$11,000	25.1%	4.3%

Home loans have grown quite rapidly in recent years. From 2001 to 2004, home loans grew by 26.5 percent for all households. Most demographic groups registered comparatively large increase in home loans, but the largest increases in home loans came for families with less than high school degrees, blacks and middle-income families.

Car loans were a distant second in terms of reasons for taking on debt. Moreover, car loans increased for the typical family by 11.1 percent from 2001 to 2004, the lowest growth rate of any type of loan. However, the fact that car loans in inflation adjusted terms increased at all is surprising. After all, according to data from the Bureau of Labor Statistics, the (quality adjusted) price of cars fell from 2001 to 2004. Hence, the rise in inflation adjusted car loans signals that families have bought bigger and more cars over the years. Often additional cars are a necessity for families who have moved further away from their jobs in search for affordable housing (Warren and Tyagi, 2003).

Table 26: Education Loans

	1992	1995	1998	2001	2004	1992 to 2004	2001 to 2004
Total	\$3,427	\$4,063	\$6,724	\$6,178	\$7,800	127.6%	26.3%
Married	\$3,717	\$4,592	\$6,956	\$7,349	\$8,900	139.4%	21.1%
Single men	\$3,558	\$3,693	\$8,695	\$5,326	\$6,000	68.6%	12.7%
Single women	\$3,097	\$3,312	\$5,333	\$5,112	\$6,500	109.9%	27.2%
No H.S./GED	-	-	-	-	-	-	-
H.S./GED	\$2,241	\$2,462	\$3,362	\$4,260	\$4,500	100.8%	5.6%
Some college	\$3,071	\$3,693	\$6,260	\$5,326	\$6,000	95.4%	12.7%
College	\$5,140	\$5,540	\$9,970	\$10,651	\$14,000	172.4%	31.4%
18 to 24	\$4,164	\$6,894	\$6,956	\$5,539	\$6,200	48.9%	11.9%
35 to 44	\$2,636	\$3,201	\$4,405	\$5,602	\$8,500	222.5%	51.7%
Over 64	-	-	-	-	-	-	-
White	\$3,954	\$3,693	\$6,956	\$7,456	\$8,000	102.3%	7.3%
Black	\$3,299	\$4,186	\$4,521	\$4,686	\$7,000	112.2%	49.4%
Hispanic	-	-	-	-	-	-	-
Bottom income quintile	\$3,295	\$3,078	\$5,681	\$4,154	\$6,000	82.1%	44.4%
Second income quintile	\$3,558	\$4,063	\$5,333	\$5,219	\$7,000	96.7%	34.1%
Middle income quintile	\$2,636	\$3,693	\$5,797	\$5,837	\$8,000	203.5%	37.1%
Fourth income quintile	\$4,349	\$4,063	\$8,115	\$6,176	\$7,500	72.5%	21.4%
Top income quintile	\$6,326	\$5,171	\$11,593	\$13,846	\$10,000	58.1%	-27.8%
Union	\$3,558	\$4,309	\$5,913	\$7,456	\$9,000	153.0%	20.7%
Non-union	\$3,348	\$4,063	\$7,420	\$5,965	\$8,000	138.9%	34.1%

The biggest increases in real debt came from education loans, although these loans were generally smaller than the other two investment related amounts of debt for the typical family. The growth in education loans likely reflects the relatively large cost increases for college education. For example, the amount of education loans for the typical family grew by 26.3 percent in real terms from 2001 to 2004, reflecting the increase in the cost of higher education (e.g., tuition and fees for a four-year public college increased by 24.6 percent over the same time period) (College Board, 2005). Moreover, education loans grew faster for single women than for single men, for black families than for white families, and for families in the middle-income quintile than for any other income bracket. That is, the differences in college debt by race, income and family status are declining, which may reflect more equal access to college across the population.

At the same time, though, the difference in education debt by age is increasing. Middle-age families saw the largest increase in education loans of any demographic group. Thus, college debt has become a bigger burden and it may impede economic advancements into later stages of life than it has before.

Table 27: Loans for Goods and Services

	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	\$1,466	\$1,582	\$1,970	\$2,319	\$2,183	\$2,640	80.1%	20.9%
Married	\$1,627	\$1,845	\$2,277	\$2,782	\$2,663	\$3,000	84.4%	12.7%
Single men	\$1,173	\$1,318	\$1,859	\$2,087	\$1,811	\$2,100	79.0%	16.0%
Single women	\$1,026	\$1,094	\$1,600	\$1,624	\$1,704	\$2,000	94.9%	17.4%
No H.S./GED	\$982	\$1,054	\$1,366	\$1,368	\$1,278	\$1,450	47.7%	13.5%
H.S./GED	\$1,466	\$1,423	\$1,846	\$1,924	\$1,917	\$2,000	36.4%	4.3%
Some college	\$1,466	\$1,450	\$1,848	\$2,840	\$2,343	\$2,600	77.4%	11.0%
College	\$2,170	\$2,517	\$3,078	\$2,852	\$3,195	\$3,200	47.5%	0.2%
18 to 24	\$880	\$1,054	\$1,416	\$1,484	\$1,278	\$1,000	13.6%	-21.8%
35 to 44	\$1,906	\$1,977	\$2,462	\$2,782	\$2,556	\$3,000	57.4%	17.4%
Over 64	\$792	\$949	\$1,009	\$1,333	\$1,065	\$2,300	190.4%	116.0%
White	\$1,569	\$1,713	\$2,339	\$2,689	\$2,450	\$3,000	91.2%	22.4%
Black	\$924	\$1,081	\$1,323	\$1,159	\$1,662	\$1,500	62.3%	-9.7%
Hispanic	\$1,613	\$1,977	\$1,859	\$1,391	\$1,630	\$2,000	24.0%	22.7%
Bottom income quintile	\$660	\$791	\$923	\$1,275	\$1,108	\$1,100	66.7%	-0.7%
Second income quintile	\$1,173	\$1,226	\$1,613	\$1,739	\$1,704	\$2,000	70.5%	17.4%
Middle income quintile	\$1,510	\$1,845	\$2,216	\$2,551	\$2,450	\$2,800	85.4%	14.3%
Fourth income quintile	\$1,833	\$2,346	\$2,647	\$3,478	\$2,833	\$3,400	85.5%	20.0%
Top income quintile	\$3,665	\$2,768	\$3,693	\$4,637	\$4,260	\$4,640	26.6%	8.9%
Union	\$1,759	\$1,977	\$2,462	\$2,898	\$2,982	\$2,840	61.5%	-4.8%
Non-union	\$1,539	\$1,713	\$2,314	\$2,319	\$2,343	\$2,900	88.4%	23.8%

When considering increases in loans for homes, cars and education in comparison with total loans, the figures suggest that the rise in consumer debt in recent years was likely linked to more spending for housing and education. The connection between total debt and car loans is less pronounced as those loans grew more slowly than total debt.

A closer look at loans for goods and services also confirms that debt increases due to investments were more a factor than debt increases for consumption in determining debt burdens. For one, loan amounts borrowed to pay for a range of goods and services, including consumer electronics but also health care, were substantially lower than loan amounts, for instance, for education. The typical loan size for goods and services was \$2,640 in 2004, about one-third of the typical outstanding education loan. Also, loans for goods and services increased slower than loans for homes and education. Further, there is no clear connection between the increases in loans for goods and services and changes in debt struggles. For instance, middle-income families saw a smaller increase in loans for goods and services than families in the second or fourth quintile, but higher increases in the debt service burden (tables 5, 6, 7 and 27). Moreover, single men saw the largest increase in debt payments relative to income, while single women saw the largest growth in loans for goods and services (tables 17,

18, 19 and 27). Similarly, households headed by somebody with some college education saw the greatest increase in debt service burden, but families with less than high school degrees saw the largest increase in loans for goods and services (tables 20, 21, 22 and 27). Further, families between the ages of 35 and 44 saw a sharp rise in their debt service, but the largest increase came for families 65 and older (tables 14, 15, 16 and 27). Also, whites increased their loans for goods and services as much as Hispanics, but saw larger increases in debt payments relative to income (tables 11, 12, 13 and 27).

VII. Families Become More Inclined to Save

There is additional evidence that debt growth had more to do with lack of income growth and borrowing for ever more costly consumption items than with a lack of personal restraint. Some observers have argued that rapid debt growth among middle class families largely reflects a desire for instant gratification, i.e., households are unable to postpone consumption of unnecessary items.

The economics literature has long understood that self-control plays a role in personal wealth accumulation (Gul and Pesendorfer, 2001; Laibson, 1997; Strotz, 1956). All else equal, households that show more restraint are expected to have more wealth. Empirical evidence, especially from surveys of individuals, has supported the theoretical predictions. Individuals that exhibit more self control tend to be better savers (Ameriks et al., 2003; Laibson et al., 2003; Paserman, 2002; Fang and Silverman, 2002; DeJong and Rpoll, 2003).

This link extends to household debt. Those households who self-identify or are identified as showing more restraint should have higher wealth accumulations and save more (or borrow less).

The goal is to find subjective measures by which households self-identify as having more self-control. Since 1989, the SCF has included a question on saving behavior, which is used here as a proxy for restraint. Specifically, respondents were asked the following question:

Which of the following statements comes closest to describing your saving habits?

- *Don't save — usually spend more than income*
- *Don't save — usually spend about as much as income*
- *Save whatever is left over at the end of the month — no regular plan.*
- *Save income of one family member, spend the other*
- *Spend regular income, save other income*
- *Save regularly by putting money aside each month*

For simplicity reasons, the answers are divided into two groups, “savers” and “non-savers.” Non-savers are those who answered yes to self-identify with any of the first three answers, while savers are defined as those respondents who self-identified with the last three answers. Specifically, the value “1” is given to non-savers and the value “2” to savers.

Because these questions go to subjective self-assessments, it is legitimate to wonder if they actually capture relevant economic substance. One test is to see if families who identify as savers have more wealth. This is almost across the board the case, age groupings being the exception. Table 28 shows the average levels of self-identification as savers and non-savers for different demographic groups. In all cases, except age groupings, groups that are more likely to self-identify as savers also have more non-retirement wealth in 2004.

What about the trends in self-reported savings inclinations and growth of non-retirement wealth? There is a link, but a weaker one. From 2001 to 2004, growth in self-identified savings behavior and wealth creation show a weak correlation coefficient with 0.20 — where 1.0 would mean perfect correlation and zero would mean no correlation at all. However, this masks differences by income levels. Groups with incomes below the median in 2004 had a positive correlation between changes in self-described savings behavior and non-retirement wealth growth of 0.62, while higher income groups showed little correlation at all with -0.20.^{4 5} Hence, the figures here suggest that self-described savings behavior is related to wealth levels and, for a substantial share of the population, to wealth creation.

As self-identified savings attitudes seem to mirror real life wealth creation, the question arises if self-identified savings attitudes are actually a good indicator for self-control. Importantly, the question used here is a hybrid measurement. It addresses the attitude towards saving as well as the ability to save. However, since 1995, the SCF includes additional questions that are more closely linked with personal attitudes, such as the attitude towards purchasing goods on credit. Including this additional information in the analysis does not materially change the results presented here.⁶ That is, the measure used here is likely a good proxy for various aspects of self-control as they relate to personal debt.

Three points are apparent from the results on self-described savings attitudes. For one, savings attitudes follow a life cycle model. Families 65 and older are less likely to have a pro-saving attitude than families between

⁴ This result could be driven by the fact that retirement wealth is excluded and that higher income families are more likely to have retirement wealth.

⁵ Data are not included but are available from author upon request.

⁶ See the appendix for more details on the additional questions and a discussion of the relevant results.

Table 28: Self-identified Savings Attitude								
	1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Total	1.41	1.43	1.44	1.46	1.48	1.48	5.0%	0.0%
Married	1.45	1.48	1.48	1.52	1.53	1.53	5.5%	0.0%
Single men	1.41	1.36	1.4	1.38	1.43	1.46	3.5%	2.1%
Single women	1.3	1.35	1.36	1.37	1.37	1.37	5.4%	0.0%
No H.S./GED	1.26	1.2	1.28	1.25	1.28	1.27	0.8%	-0.8%
H.S./GED	1.37	1.41	1.4	1.4	1.42	1.44	5.1%	1.4%
Some college	1.43	1.44	1.44	1.46	1.5	1.45	1.4%	-3.3%
College	1.55	1.57	1.56	1.61	1.62	1.6	3.2%	-1.2%
18 to 24	1.36	1.31	1.29	1.39	1.37	1.38	1.5%	0.7%
35 to 44	1.5	1.46	1.45	1.48	1.52	1.51	0.7%	-0.7%
Over 64	1.28	1.31	1.36	1.37	1.39	1.4	9.4%	0.7%
White	1.43	1.45	1.45	1.48	1.49	1.49	4.2%	0.0%
Black	1.31	1.34	1.36	1.4	1.44	1.45	10.7%	0.7%
Hispanic	1.32	1.3	1.34	1.34	1.39	1.42	7.6%	2.2%
Bottom income quintile	1.21	1.19	1.24	1.24	1.24	1.26	4.1%	1.6%
Second income quintile	1.29	1.35	1.33	1.36	1.37	1.38	7.0%	0.7%
Middle income quintile	1.47	1.47	1.47	1.47	1.5	1.47	0.0%	-2.0%
Fourth income quintile	1.56	1.55	1.58	1.63	1.63	1.58	1.3%	-3.1%
Top income quintile	1.64	1.67	1.69	1.73	1.72	1.72	4.9%	0.0%
Union	1.53	1.53	1.56	1.57	1.6	1.57	2.6%	-1.9%
Non-union	1.45	1.47	1.46	1.49	1.5	1.52	4.8%	1.3%

the ages of 35 and 44, which intuitively makes sense due to declining savings needs in retirement. It is also reflective of a different phenomenon. Younger families are more likely than middle-age families to face liquidity constraints, i.e., they are less likely to have discretionary income to save, which influences their ability and attitude towards saving. Similarly, the attitude towards savings also increases with income, again suggesting declining liquidity constraints increase savings. Second, attitudes towards savings have shifted over time. Families have become more willing to save than in the past. The attitude towards savings rose by 5.0 percent from 1989 to 2004. No single demographic group changed its mind towards less saving over this period. The groups that showed the largest increases in self-identifying as savers were those nearing retirement and blacks, as their attitude towards savings increased on average by more than 10 percent from 1989 to 2005. Third, much of the improvement in savings attitudes occurred from 1989 to 2001. From 2001 to 2004, there was no change in savings attitude for the population as a whole. In addition, some groups actually became less likely to self-identify as savers from 2001 to 2004.

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	61.0%	65.4%	68.7%	68.0%	69.1%	70.4%	9.5%	1.3%
	mortgage debt	32.0%	31.7%	33.8%	33.7%	35.0%	39.2%	7.2%	4.1%
	credit card debt	36.1%	42.3%	45.8%	43.8%	44.4%	45.9%	9.8%	1.5%
	other debt	38.6%	42.1%	44.6%	44.3%	43.4%	44.4%	5.8%	1.0%
Median real levels of	total debt	\$16,127	\$17,792	\$19,082	\$24,694	\$26,841	\$37,380	131.8%	39.3%
	mortgage debt	\$41,050	\$46,127	\$56,630	\$64,922	\$66,036	\$84,000	104.6%	27.2%
	credit card debt	\$1,334	\$1,397	\$1,847	\$2,087	\$2,130	\$2,200	64.9%	3.3%
	other debt	\$7,330	\$7,117	\$8,371	\$9,854	\$10,119	\$11,000	50.1%	8.7%
	net worth	\$32,415	\$26,912	\$26,838	\$25,221	\$24,498	\$30,195	-6.8%	23.3%
Median share of payments relative to income for families with any of the respective debt	total debt	17.1%	17.1%	16.5%	18.0%	17.5%	20.2%	3.0%	2.7%
	mortgage debt	15.6%	18.0%	18.3%	18.5%	17.8%	20.4%	4.8%	2.5%
	credit card debt	0.6%	0.8%	0.9%	1.0%	1.0%	1.1%	0.5%	0.1%
Share of households with	total debt service payments above 40% of income	14.3%	15.3%	13.8%	17.9%	16.0%	18.2%	3.9%	2.3%
	mortgage debt service payments above 40% of income	10.3%	13.4%	13.8%	16.1%	12.9%	15.1%	4.9%	2.2%
	credit card debt service payments above 10% of income	2.1%	3.4%	5.3%	8.6%	4.6%	6.3%	4.3%	1.8%
Median ratio to income of	total debt	46.2%	58.9%	62.7%	70.6%	72.9%	105.5%	59.3%	32.6%
	mortgage debt	83.3%	106.7%	125.7%	131.4%	128.3%	172.2%	88.9%	43.9%
	credit card debt	3.5%	5.0%	5.5%	6.0%	5.8%	6.3%	2.8%	0.5%

If more people self-identified as savers from 1989 to 2004, how come the personal savings rate declined? The difference has to do, for one, with the definition of savings in each case. The SCF question aims at gross savings, i.e., are families contributing money to a financial vehicle, while ignoring potential offsetting effects of more borrowing? The personal savings rate, though, is a net saving measure. It relates the money that is left over at the end of the month after subtracting consumption from disposable income. If households borrow more to pay for more consumption, the personal savings rate declines. Second, the SCF question answers the question of whether people are more likely to save, but it does not measure the actual amounts. It is likely that more families are putting money away, but that they are putting smaller amounts away, especially in light of rapidly rising asset values — stocks and homes — over the past 15 years.

How does the savings attitude relate to increases in debt? The earlier results showed that a number of demographic groups saw a disproportionate increase in debt burdens in recent years and that their debt burdens came level with those of their counterparts who typically already struggled more with debt. These groups

Table 30: Self-identified Savers

		1989	1992	1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	75.5%	76.0%	76.8%	77.1%	78.6%	79.2%	3.7%	0.6%
	mortgage debt	48.3%	47.6%	49.0%	51.8%	52.5%	53.4%	5.1%	0.8%
	credit card debt	44.7%	45.6%	49.2%	44.4%	44.3%	46.5%	1.8%	2.1%
	other debt	52.3%	47.7%	49.6%	49.6%	50.5%	54.0%	1.8%	3.5%
Median real levels of	total debt	\$38,235	\$36,902	\$43,703	\$56,923	\$56,923	\$82,000	114.5%	44.1%
	mortgage debt	\$58,643	\$63,260	\$71,403	\$81,153	\$85,208	\$105,000	79.1%	23.2%
	credit card debt	\$1,320	\$1,318	\$1,724	\$1,739	\$1,917	\$2,000	51.6%	4.3%
	other debt	\$10,996	\$9,884	\$10,464	\$13,912	\$13,846	\$14,100	28.2%	1.8%
	net worth	\$99,693	\$85,797	\$78,013	\$94,311	\$113,966	\$115,500	15.9%	1.3%
Median share of payments relative to income for families with any of the respective debt	total debt	15.6%	15.9%	16.5%	17.5%	16.4%	17.2%	1.6%	0.8%
	mortgage debt	12.3%	14.8%	14.6%	15.0%	14.1%	14.8%	2.5%	0.7%
	credit card debt	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.2%	0.1%
Share of households with	total debt service payments above 40% of income	7.7%	9.7%	10.6%	12.8%	9.7%	9.2%	1.4%	-0.5%
	mortgage debt service payments above 40% of income	3.3%	7.1%	7.2%	7.6%	5.5%	5.0%	1.7%	-0.5%
	credit card debt service payments above 10% of income	0.4%	1.8%	2.0%	2.9%	1.2%	2.0%	1.6%	0.8%
Median ratio to income of	total debt	60.0%	66.0%	75.8%	87.6%	84.0%	109.8%	49.8%	25.9%
	mortgage debt	78.0%	93.9%	100.0%	107.4%	105.5%	132.7%	54.7%	27.2%
	credit card debt	2.5%	2.8%	3.5%	3.4%	3.3%	3.7%	1.2%	0.3%

include white families, middle-age families, single men, families with at least some college education and middle-income families. As already mentioned, for all of these groups, the savings attitude moved towards more savings from 1989 to 2004 and not fewer savings. From 2001 to 2004, some groups, such as whites and single men, either kept their attitude towards saving constant or moved towards more savings, while others, such as families with some college, middle-income families and middle-age families, moved towards fewer savings. However, even after the declines in savings attitude in recent years, middle-income families only went back to their longer term average, making 2001 an exception; middle-age families' savings attitude in 2004 was still more pro-saving than at any point before 2001, and the savings attitude for families with some college education was more pro-saving than at any point before 1998. These data do not lend support to the argument that a declining pro-saving attitude contributed to the rise in consumer debt.

The results suggest that liquidity constraints matter for savings attitude and that over time all households have developed a more pro-saving attitude. Specifically, families who are more likely to be pro-savers typically are also more likely to have debt and they generally tend to have much larger amounts of debt (tables 29 and 30). The primary explanation for this phenomenon lies in the fact that savings attitudes are also associated with wealth and wealth creation. Although savers have higher levels of debt, they also have higher levels of wealth. That is, savers have more collateral to borrow against. However, their composition of debt tends to be less heavily influenced by credit card debt, which explains the lower median share of debt payments relative to income for “saver” households than for “non-saver households. In essence, liquidity constraints have two effects on families. It restricts their ability to save and it raises their costs to save.

Interestingly, though, this has meant that indebtedness among “saver” families has grown more than for “non-saver” families. Total debt for the typical “saver” family grew by 44.1 percent in real terms from 2001 to 2004 and it increased by 25.9 percentage points relative to income. The figures for “non-saver” families were 39.3 percent and 32.6 percentage points, respectively. Although these rates are, in very general terms, in the same ballpark, the result with respect to the typical wealth for each group is not. The non-retirement wealth of “saver” families grew by 1.3 percent from 2001 to 2004, a far cry of the 23.3 percent for “non-saver” families. Again, saver families had more access to wealth to borrow against, which ultimately meant a slowdown in debt growth. To put it differently, non-saver families had less wealth to begin with, i.e., more catching up to do, and they had less collateral to borrow against their wealth.

Yet, the heavier indebtedness for “saver” families than for “non-saver” families has not reversed financial struggles. “Non-saver” families had substantially higher debt payments relative to income than “saver” families. Moreover, their debt payments also grew much faster relative to income with a 2.7 percentage point increase, compared to a 0.8 percentage point gain for “saver” families.

However, contrary to the findings for levels, where the difference was explained by higher credit card debts, the greater change in debt payments is a result of faster growth of mortgage debt. Mortgage payments relative to income grew more than three times faster for “non-saver” families than for “saver” families, while credit card payments increased at about the same rate.

Despite lower debt levels and, by some measures, smaller increases in indebtedness, households that self-identify as “non-savers” still struggle more with their debt than households that self-identify as “savers.” This results from a combination of generally lower incomes and proportionately higher credit card debt.

The results on the link between personal characteristics and household debt does not support the assertion that a declining willingness to save, or an increasing willingness to consume, has driven record levels of consumer debt. Personal attitudes have become more pro-saving and thus less pro-consumption, and debt levels have risen faster if anything for self-identified savers than for non-savers.

VIII. Conclusion

In the past few years there has been a record rise in consumer debt. Detailed household level data show that the growth in household debt has been a broad-based phenomenon, but with a notable impact on middle-class families. Whereas middle-class families used to struggle with debt to a lesser extent than their counterparts, higher debt levels have now caught up with these families. The data show that families became more heavily indebted due to heavier borrowing for investments such as homes and education, both of which saw dramatic price increases in recent years. Because income growth has been slow over the last several years, it has been more difficult for families to cover these rising costs with income, thus they have taken on more debt. This picture is consistent with the finding that households have become more pro-saving over the same time period.

References

- American Bankruptcy Institute**, 2005, *Non-business Bankruptcy Filings by Chapter*, Washington, D.C.: ABI.
- Ameriks, J., Caplin, J., Leahy, J., and Tyler, T.**, 2003, “Measuring Self Control,” mimeo., Department of Economics, New York University, New York, NY.
- Ausubel, L.**, 1997, “Credit Card Defaults, Credit Card Profits, and Bankruptcy,” *American Bankruptcy Law Journal*, Spring, 71:249-270.
- Board of Governors, Federal Reserve System**, 2006a, Release Z.1 Flow of Funds Accounts of the United States, Washington, D.C.: BOG.
- Board of Governors, Federal Reserve System**, 2006b, Release H.15 Selected Interest Rates – Conventional Mortgages, Washington, D.C.: BOG.
- Board of Governors, Federal Reserve System**, 2006c, Household Debt Service and Financial Obligations Ratios, Washington, D.C.: BOG.
- Boushey, H.**, 2005, “Student Debt: Bigger and Bigger,” Washington, D.C.: Center for Economic and Policy Research.
- Bureau of Economic Analysis**, 2006, National Income and Product Accounts, Washington, D.C.: BEA.
- Bureau of Labor Statistics**, 2006a, Consumer Price Index – All Items Less Shelter, Washington, D.C.: BLS.
- Chatterjee, S., Corbae, D., Nakajima, M., Rios-Rull, J.**, 2002, “A Quantitative Theory of Unsecured Consumer Credit Risk with Default,” Federal Reserve Bank of Philadelphia Working Paper No. 02-6, Philadelphia, PA: FRBP.
- College Board**, 2005, “Trends in College Pricing,” Washington, D.C.: College Board.
- DeJong, D., and Ripoll, M.**, 2003, “Self-control Preferences and the Volatility of Stock Prices,” mimeo., Department of Economics, University of Pittsburgh, Pittsburgh, PA.
- Draut, T.**, 2005, *Strapped: Why America’s 20- and 30-Somethings Can’t Get Ahead*, New York, NY: Doubleday.

Draut, T., and Silva, J., 2004, "Generation Broke," New York, NY: Demos.

Dunsky, R. and Follain, J., 2000, "Tax-Induced Portfolio Reshuffling: The Case of the Mortgage Interest Deduction," *Real Estate Economics*, 28 (4): 683-718.

Fang, H., and Silverman, D., 2004, "Time-Inconsistency and Welfare Program Participation: Evidence from the NLSY," Cowles Foundation Discussion Paper No. 1465, New Haven, CT: Yale University.

Gross, D., Souleles, N.S., 1998, "An Empirical Analysis of Personal Bankruptcy and Delinquency," Financial Institutions Center Working Paper No. 98-28-B, Philadelphia, PA: The Wharton School, University of Pennsylvania.

Gul, F., and Pesendorfer, W., 2001, "Temptation and Self Control," *Econometrica*, 69, No.6: 1403-1435.

King, T., and Bannon, E., 2002, "The Burden of Borrowing: A Report on the Rising Rates of Student Loan Debt," State PIRGs Higher Education Project, Washington, D.C.: PIRG.

Laibson, D., 1997, "Golden Eggs and Hyperbolic Discounting," *Quarterly Journal of Economics*, 112: 443-477.

Laibson, D., Repetto, A., and Tobacman, J., 2003, "Wealth Accumulation, Credit Card Borrowing and Consumption-Income Co-movement," Documentos de Trabajo No. 166, Centro de Economía Aplicada, Universidad de Chile, Santiago, Chile.

Lilly, S., 2004, "A Closer Look at the President's Proposal for Changes in Student Assistance," CAP Domestic Policy Report, Washington, D.C.: Center for American Progress.

Manning, R., 2000, *Credit Card Nation*, New York, NY: Basic Books.

McGhee, H., and Draut, T., 2004, "Retiring in the Red," New York, NY: Demos.

Office of Federal Housing Enterprise Oversight, 2006, House Price Index, Washington, D.C.: OFHEO.

Purcell, P. 2005, "Pension Sponsorship and Participation: Summary of Recent Trends," CRS Report CRL30122, Washington, D.C.: Congressional Research Service.

Stango, V., 1999, "The tax reform act of 1986 and the composition of consumer debt," *National Tax Journal*, 52: 717-39.

Stavins, J., 2000, "Credit Card Borrowing, Delinquency, and Personal Bankruptcy," *New England Economic Review*, July/August: 15-30.

Strotz, R.H., 1956, "Myopia and Inconsistency in Dynamic Utility Maximization," *Review of Economic Studies*, 23, 165.

Sullivan, T., Thorne, D., and Warren, E., 2001, "Young, Old, and In Between: Who Files for Bankruptcy?" Norton Bankruptcy Law Advisor, Issue No. 9A, September, Gainesville, GA: Norton Institutes on Bankruptcy Law.

U.S. Census Bureau, 2005a, Population Estimates, Washington, D.C.: Census.

U.S. Census Bureau, 2005b, Income, Poverty and Health Insurance Coverage of the U.S. Population, Washington, D.C.: Census.

U.S. Census Bureau, 2005c, American Housing Survey 2003, Washington, D.C.: Census.

Van Order, R., 2001, "The Structure and Evolution of American Secondary Mortgage Markets, with Some Implications for Developing Markets," *Housing Finance International*, 26, No.1: 16-31.

Vandell, K., 2000, "Securitization of the US Mortgage Market: Progress and Pitfalls, with Lessons for Japan," presentation at the Seventh Annual International Land Policy Review.

Warren, E., and Tyagi, A.W., 2003, *The two income family trap*, New York, NY: Basic Books.

Weller, C., 2006, "The Middle Class Falls Back," *Challenge* 49, No. 1: 16-43.

Weller, C., and Wolff, E., "Retirement Income: The Crucial Role of Social Security," Washington, D.C.: Economic Policy Institute.

Appendix:

A.1 Attitudes towards Saving and Debt

Since 1995, the SCF includes additional questions related to attitudes on debt and saving. This includes the question already discussed in the text:

Which of the following statements comes closest to describing your saving habits?

- *Don't save – usually spend more than income*
- *Don't save – usually spend about as much as income*
- *Save whatever is left over at the end of the month – no regular plan*
- *Save income of one family member, spend the other*
- *Spend regular income, save other income*
- *Save regularly by putting money aside each month*

As discussed in the text, respondents are divided into “savers” and “non-savers.” Another question investigates respondents’ general attitude towards installment credit. Specifically:

In general, do you think it is a good idea or a bad idea for people to buy things on the installment plan?

- *Good idea*
- *Good in some ways, bad in others*
- *Bad idea*

To have the ranking consistent with the valuation of the first question, the first response is coded as receiving the value of “3,” the second answer the value of “2” and the third answer the value of “1.” This question thus divides families into “borrowers” and “non-borrowers,” with the middle group being neither.

In addition, two questions address the use of debt towards consumption items:

People have many different reasons for borrowing money which they pay back over a period of time. Please tell me whether you feel it is all right for someone like yourself to borrow money to cover the expenses of a vacation trip?

- *Yes*
- *No*

People have many different reasons for borrowing money which they pay back over a period of time. Please tell me whether you feel it is all right for someone like yourself to borrow to finance the purchase of a fur coat or jewelry?

- *Yes*
- *No*

For simplicity reasons, respondents are classified as “not inclined to go into debt” if they answered “no” on both questions and “inclined to go into debt” if they answered “yes” on either question. The first group of responses are given a value of “1” and the rest are given the value of “0.” That way, higher values are again consistent with a more pro-saving attitude.

In all cases, higher values represent a more pro-saving attitude of the respondents. Consequently, the values of all answers are added together since there is not a priori reason to value one answer more than the others. The answers thus range from 2 to 6. The averages for all demographic groups are summarized in table A-1.

Table A-1: Savings Attitude (alternate)						
	1998	1998	2001	2004	1995 to 2004	2001 to 2004
Total	4.21	4.34	4.32	4.31	2.4%	-0.2%
Married	4.24	4.42	4.37	4.36	2.8%	-0.2%
Single men	4.09	4.16	4.26	4.26	4.2%	0.0%
Single women	4.21	4.26	4.23	4.25	1.0%	0.5%
No H.S./GED	4.14	4.20	4.27	4.21	1.7%	-1.4%
H.S.	4.15	4.29	4.21	4.26	2.7%	1.2%
Some college	4.12	4.27	4.24	4.28	3.9%	0.9%
College	4.38	4.48	4.48	4.41	0.7%	-1.6%
18 to 24	3.77	4.09	3.92	4.03	6.9%	2.8%
35 to 44	4.18	4.29	4.33	4.33	3.6%	0.0%
Over 64	4.36	4.50	4.46	4.37	0.2%	-2.0%
White	4.28	4.38	4.37	4.35	1.6%	-0.5%
Black	3.92	4.13	4.12	4.25	8.4%	3.2%
Hispanic	3.97	4.23	4.16	4.17	5.0%	0.2%
Bottom income quintile	4.05	4.22	4.18	4.16	2.7%	-0.5%
Second income quintile	4.13	4.18	4.19	4.18	1.2%	-0.2%
Middle income quintile	4.19	4.33	4.33	4.30	2.6%	-0.7%
Fourth income quintile	4.31	4.46	4.37	4.44	3.0%	1.6%
Top income quintile	4.51	4.61	4.58	4.53	0.4%	-1.1%
Union	4.24	4.38	4.35	4.36	2.8%	0.2%
Non-union	4.20	4.33	4.29	4.32	2.9%	0.7%

Alternative Measure	Correlation of	Correlation Coefficient
“Borrower and Saver”	level in 2004	0.26
	change 1995 to 2004	0.15
	change 2001 to 2004	-0.37
“Inclined to Go into Debt and Saver”	level in 2004	0.31
	change 1995 to 2004	0.25
	change 2001 to 2004	0.48

One obvious issue arises. It is possible that one of the additional measures is more important than the other. If that is the case, the correlation between the sum of the original saver measure and one of the components should be more highly correlated than the sum of the original saver measure and the other additional component. This is not the case (table A-2). By and large, adding one variable to the original measure indicates a small positive correlation, but neither of the two variables appears dominant.⁷

Similar to the split of the sample according to their responses to the first saving question, the sample here is split into savers and non-savers. Respondents with total values of “2” or “3” are considered “non-savers,” while respondents with total values equal to “5” or “6” are considered “savers.” Other answers are harder to classify in either direction and are considered neutral and not further investigated here. Debt and debt burden figures are summarized in tables A-3 and A-4.

The broad conclusion detailed in the text hold here, too. In general, the attitude among all families, regardless of demographic characteristics, has become more pro-saving between 1995 and 2004. Among the groups that saw the largest increases in debt, there was no change in saving attitude for single men and middle age families. Also, families in the fourth income quintile became more pro-saving from 2001 to 2004. In contrast, for families with some college education, white families and families in the middle quintile, the pro-saving attitude declined from 2001 to 2004. Yet, in all cases, their attitude was still more pro-saving than in 1995.

As before, debt levels for self-identified savers were higher than for non-savers. Again, by two out of three measures, savers saw faster debt growth than non-savers. Savers saw larger increases than non-savers in total debt relative to income. They also saw a decline in total non-retirement wealth, while it grew for non-savers.

⁷ The correlation is much stronger when correlation of signs of change and not of values of change is evaluated.

Yet, just as before, debt service burdens were still higher for non-savers than for savers and they also increased more for non-savers than for savers. Again, more credit card debt and wider use of credit cards likely explains the fact that non-savers have higher debt service burden and simultaneously lower debt levels.

These broad conclusions support the results in the text that lack of personal restraint does not appear to be a major explanatory factor in determining the rise in consumer debt.

		1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	75.83%	78.96%	79.53%	77.07%	1.2%	-2.5%
	mortgage debt	38.36%	39.50%	42.82%	43.50%	5.1%	0.7%
	credit card debt	52.95%	55.57%	53.84%	53.43%	0.5%	-0.4%
	other debt	51.65%	53.11%	51.02%	52.04%	0.4%	1.0%
Median real levels of	total debt	\$22,529	\$27,128	\$31,953	\$43,000	90.9%	34.6%
	mortgage debt	\$62,785	\$76,516	\$69,232	\$90,000	43.3%	30.0%
	credit card debt	\$2,093	\$2,319	\$2,450	\$2,700	29.0%	10.2%
	other debt	\$9,356	\$9,970	\$10,651	\$13,000	38.9%	22.1%
	net worth	\$18,220	\$17,970	\$19,704	\$35,900	97.0%	82.2%
Median share of payments relative to income for families with any of the respective debt	total debt	17.00%	17.33%	17.55%	18.70%	1.7%	1.2%
	mortgage debt	17.71%	17.32%	15.27%	17.33%	-0.4%	2.1%
	credit card debt	1.00%	1.00%	1.01%	1.10%	0.1%	0.1%
Share of households with	total debt service payments above 40% of income	13.42%	18.09%	12.86%	17.00%	3.6%	4.1%
	mortgage debt service payments above 40% of income	12.97%	16.61%	8.96%	12.28%	-0.7%	3.3%
	credit card debt service payments above 10% of income	5.06%	7.16%	4.59%	5.00%	-0.1%	0.4%
Median ratio to income of	total debt	64.64%	67.39%	76.92%	100.00%	35.4%	23.1%
	mortgage debt	120.97%	130.95%	116.67%	149.09%	28.1%	32.4%
	credit card debt	5.97%	5.97%	6.07%	6.62%	0.7%	0.6%

Drowning in Debt: America's Middle Class Falls Deeper in Debt as Income Growth Slows and Costs Climb

Table A-4: Self-identified Savers (alternate definition)							
		1995	1998	2001	2004	1989 to 2004	2001 to 2004
Share of households with	total debt	70.51%	69.00%	69.95%	72.49%	2.0%	2.5%
	mortgage debt	42.33%	44.37%	44.55%	47.78%	5.5%	3.2%
	credit card debt	43.01%	37.71%	36.63%	39.72%	-3.3%	3.1%
	other debt	43.71%	43.52%	43.07%	47.60%	3.9%	4.5%
Median real levels of	total debt	\$35,701	\$48,692	\$49,367	\$66,000	84.9%	33.7%
	mortgage debt	\$67,709	\$76,516	\$82,013	\$97,000	43.3%	18.3%
	credit card debt	\$1,724	\$2,203	\$1,662	\$2,000	16.0%	20.3%
	other debt	\$9,972	\$11,593	\$13,687	\$12,200	22.3%	-10.9%
	net worth	\$67,401	\$76,435	\$92,557	\$91,000	35.0%	-1.7%
Median share of payments relative to income for families with any of the respective debt	total debt	16.54%	17.93%	17.00%	17.84%	1.3%	0.8%
	mortgage debt	15.75%	16.07%	15.32%	16.26%	0.5%	0.9%
	credit card debt	0.67%	0.81%	0.59%	0.71%	0.0%	0.1%
Share of households with	total debt service payments above 40% of income	11.54%	15.00%	11.95%	12.17%	0.6%	0.2%
	mortgage debt service payments above 40% of income	8.29%	8.65%	8.00%	8.11%	-0.2%	0.1%
	credit card debt service payments above 10% of income	2.65%	3.96%	1.96%	3.68%	1.0%	1.7%
Median ratio to income of	total debt	74.32%	91.46%	81.86%	111.11%	36.8%	29.2%
	mortgage debt	109.38%	113.64%	112.90%	145.00%	35.6%	32.1%
	credit card debt	4.00%	4.84%	3.52%	4.24%	0.2%	0.7%

Acknowledgements

This report would not have been possible without the very careful and insightful comments from a number of people. I would like to thank Beth Almeida, Dean Baker, Jenna Churchman, Derek Douglas, John Irons, Sue Lee, Matt Miller, Peter Swire and Elizabeth Warren for their suggestions in response to earlier drafts. All remaining errors are my sole responsibility.

About the Author

Dr. Christian Weller is a Senior Economist at the Center for American Progress, where he specializes in Social Security and retirement income, macroeconomics, the Federal Reserve, and international finance. Prior to joining American Progress, he was on the research staff at the Economic Policy Institute, where he remains a research associate. Dr. Weller has also worked at the Center for European Integration Studies at the University of Bonn, Germany, in the Department of Public Policy of the AFL-CIO in Washington, D.C., and in universal banking in Germany, Belgium and Poland. His publications appear in publications ranging from the *Cambridge Journal of Economics*, the *Journal of Policy Analysis and Management*, the *International Review of Applied Economics*, the *Journal of Development Studies*, and the *Journal of International Business Studies* to the *Atlanta Journal Constitution*, *USA Today*, *Detroit News*, *Challenge*, and the *American Prospect*. Dr. Weller is often cited in the press and he has been a frequent guest on news programs on ABC, NBC, CNN, MSNBC, CNBC, Fox News and Bloomberg Television. Dr. Weller holds a Ph.D. in economics from the University of Massachusetts at Amherst.

Center for American Progress



ABOUT THE CENTER FOR AMERICAN PROGRESS

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”

Center for American Progress
1333 H Street, NW, 10th Floor
Washington, DC 20005
Tel: 202.682.1611 • Fax: 202.682.1867
www.americanprogress.org