

Household Debt In Small And Mid-Sized Cities Of America

Marza Shahjahan (Email: shahjahan_m@uapb.edu), University of Arkansas, Pine Bluff

Of the manifold problems that low income households wrestle with in their everyday lives the most worrisome is the household debt problem. It is double edged-the debt is unavoidable-but the inadequate income renders the households unable to service the debt efficiently. This makes them psychologically depressed and liable to the constant anxiety and gnawing. And the concern of the household regarding their failure to keep creditors satisfied involves constant anguish, restlessness and lack peace of mind.

We do not very often hear about the size of the debt that households bear at any point in time even though most households in small and mid-sized cities in the USA are in perpetual debt. The necessities of life such as home, car, food, clothing, and medicine cannot be met with the current level of income of these households. They supplement their income by borrowing, or they buy goods and services on credit. Finding a means of making payments to creditors is just as important to these households as finding ways of providing necessities of life such as food, shelter and clothing for themselves and their families. Because debt problem weigh so heavily in the minds of the households, we are attempting here to give an in-depth analysis of their debts and to venture into estimating the trend and the size of household debts. We have calculated the size of home, car, personal, business, and credit car loans as well as the overall size of household debt, and we have also determined how these loans average out for different income groups. Often, an indebted household is not aware of the size of the debt that it has incurred or the full nature of the debt burden it is encumbered with. To make this point, the size of each household's debt has been related to its income to determine how large the household debt is relative to income. We have also compared the average size of the debts for different income groups with each group's mean income to determine which groups bear regressive debt burdens.

The Average Size of Household Debt

	1985	1988	1990	1991	1992	1993
Sample Average Debt	\$16,300	\$14,050	\$15,430	\$15,280	\$11,340	\$12,210
The Average Debt of the Indebted Household	\$16,780	\$22,820	\$33,320	\$31,880	\$31,180	\$33,590

The sample's average of last four years' household debt was (1990-1993)	\$13,565
Per year average decrease in debt for 1990-1993 was (sample average)	-\$1,073
The average of indebted households' debt for the period 1990-1993 was	\$32,493
Per year per household average increase in indebted households debt was	\$90

In finding the trends and central tendencies of our data, we have concentrated on the data of the 1990-1993 period, but the 1985 and 1988 data can always be referred to for finding the trend of the early years of survey. The data shows that the sample average size of household debt varied between \$11,340 and \$15,430 for the 1990-1993 period yielding an average of \$13,565, showing a trend of decrease in the average size of household debt for this period of \$1073 per household. The sample average of household debt for the years of 1985 and 1988 varied between \$14,050 and \$16,300, showing a decrease in the trend of household debt. However, the data for indebted households gives a different picture. During the 1990-1993 period, the average size of the debt for the indebted household varied between \$33,590 and \$31,180, yielding an average size of the debt of \$32,493, showing an

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increase in the size of the debt of \$90 per year per household. The average size of the debt of indebted households for the years of 1985 and 1988 varied between \$16,780 and \$22,820, yielding an average increase in household debt of \$2,013 per year per household for the 3-year span.

In the trend of household debt the fact that stands out prominently is that the debt of the indebted households grew to more than twice the amount of the sample average of household debt for the 1990-1993 period. The data shows that the size of the indebted households' debt itself increased by more than 100% from what it was in the beginning of the survey. In summary, we claim that the sample average size of household debt centered around \$13,500 and that of the average indebted household's debt lies in the proximity of \$32,500. We should bear in mind that in determining sample averages, we took all households into account, including those who did not incur any debts at all. This generally leads to an underestimation of the debt of households. The sample averages are, of course, useful for macro analysis and the policy making process. They do not, however, reflect the true position of households relative to their debts. The averages of indebted households, on the other hand, do reflect the realities of their situation relating to debt. Because of this, we focused more on analyzing the data of households that were directly associated with debt and interest payments rather than the data representing the sample averages. After having determined the average household debt, we calculated the average debt in several subsidiary categories.

Sample Average Size of Debt (item wise)

Average Size Of Debt For All Sampled Households	1985	1988	1990	1991	1992	1993
Average Household Income	\$26,019	\$25,323	\$30,082	\$29,107	\$28,342	\$30,532
Home Loan	\$10,703	\$8,446	\$10,533	\$9,598	\$7,693	\$8,861
Car Loan	\$1,366	\$641	\$2,165	\$3,630	\$2,170	\$2,800
Personal and Business Loans	\$3,352	\$4,403	\$420	\$736	*\$1,420	*\$1,530
Credit Car Loan	\$490	\$312	\$2,310	\$1,310	\$1,450	\$1,560

**Estimated Figures*

The sample average home loan for 1990-1993 was	\$9,171
The sample average car loan for 1990-1993 was	\$2,691
The sample average personal and business loan for 1990-1993 was	\$1,027
The sample average credit card loan for 1990-1993 was	\$1,658
The sample average household income for 1990-1993 was	\$29,516

The data shows that the sample averages for home loans varied from \$7,693 to \$10,533, yielding an average of \$9,171 which constituted 31% of the average household income. The average car loan varied from \$2,165 to \$3,630 for an average of \$2,691 which equaled 9.1% of the average household income. Personal and business loans varied from \$420 to \$1,530 for an average of \$1,027, or 3.5% of the average household income. The average credit card loan varied from \$1,310 to \$2,310 for an average of \$1,658 or 5.6% of the average household income¹. Eliminating debt-free households from the sample shows a very different picture of household debt in small U.S. cities.

Frequencies of Indebted Households

	1985	1988	1990	1991	1992	1993
Averages of Indebted Households' Debt	\$16,780	\$22,820	\$33,320	\$31,880	\$31,180	\$33,590
Frequencies of Indebted Households	97%	62%	46%	48%	33%	32%

¹ The average income here represents the average of four years income (1990-1993 period).

In our first four years of study (1985, 1988, 1990, and 1991), 48% to 97% of all households were in debt. In the early period of the survey, in 1985, 97% of households were in debt. At that time, most households maintained records of interest payments on all items because these payments were deductible for income tax purposes. In 1985 and 1988, 97% and 62% of households reported debts for one reason or another. Frequencies for 1992-1993 have been under-reported because households did not keep accurate records of nondeductible interest-bearing loans because of changes in the tax code.

Average Size of Debt and Frequencies² Of Indebted Households

Average Size Of Debt For Indebted Households	1985	1988	1990	1991	1992	1993
Home Loan	\$16,628 (64%)	\$21,719 (39%)	\$27,227 (39%)	\$27,281 (35%)	\$23,942 (32%)	\$26,731 (33%)
Car Loan	\$4,850 (28%)	\$6,929 (9%)	\$16,132 (13%)	\$15,789 (23%)	\$11,260 (8%)	\$10,000 (15%)
Personal and Business Loans	\$6,553 (51%)	\$9,233 (48%)	\$11,394	\$8,855	\$8,500*	\$9,160*
Credit Car Loan	\$844 (84%)	\$1,684 (19%)	\$7,430 (31%)	\$5,140 (25%)	\$4,400 (13%)	\$4,220 (20%)

**Estimated Figures*

***Numbers in () Denote Frequencies*

The average size of home loan for 1990-1993 was	\$26,295
The average size of car loans for 1990-1993 was	\$13,295
The average size of personal and business loan for 1990-1993 was	9,477
The average size of credit card loan for 1990-1993 was	\$5,298

Data shows that the average size of home loans varied between \$23,942 and \$27,281 during the last four years of the survey (1990-1993). Except for 1992, the average size of home loans in recent years has been hovering around \$27,000 while in the earlier years of our survey, in 1985 and 1988, it was \$16,628 and \$21,719 respectively. The average size of car loans varied between \$10,000 and \$16,132 during this period, although the average size was only \$4,850 in 1985 and \$6,929 in 1988, showing the beginning of a faster rate of increase in the size of car loans. The average size of personal and business loans increased from \$8,500 to \$11,394 for the same period. The size of credit card loans varied between \$4,220 and \$7,430 for the 1990-1993 period, but was only \$844 and \$1,684 in 1985 and 1988, indicating a six or seven times increase in the size of credit card loans since we started collecting data in 1985.

The frequencies for home loans surpassed the frequencies of other loans. In 1985, 64% of households incurred home loans, but for the other years of the survey, the frequencies varied from 32% to 39%. The percentage of households which borrowed on credit cards (during 1985, 1988, 1990 and 1991) varied between 19% and 84%. In 1985, 28% of the households had outstanding balances on car loans. From our data of 1985, 1988, 1990 and 1991, it can be claimed that some large section of households were in debt in the mid-sized cities of the USA.

² Not many households maintained accurate data on interest payments and on personal and business loans since they were declared non-deductible items for tax purposes.

Household Debt And Other Debts³

	1985	1988	1990	1991	1992	1993
Average Household Debt	\$16,780	\$22,820	\$33,320	\$31,880	\$31,180	\$33,590
Average Household Corporate Debt	\$19,570	\$28,597	\$34,654	\$38,866	\$42,516	\$45,183
Average Household Federal Debt	\$21,048	\$28,736	\$33,369	\$38,160	\$41,870	\$45,183
Average Household Share of GNP	\$46,260	\$52,568	\$58,576	\$59,510	\$63,031	\$65,916
Average Household State Debt	\$2,443	\$3,044	\$3,436	\$3,815	\$4,185	\$4,518

The average size of household debt for 1990-1993	\$32,493
The average size of corporate debt for 1990-1993	\$40,305
The average size of federal debt for 1990-1993	\$39,646
The average size of household income for 1990-1993	\$61,758
The average size of state debt for 1990-1993	\$3,989

We found it interesting to compare the trend of household debt with the national debt. Thus, we estimated the amount per household of federal, corporate, state and household debt. This enabled us to analyze the trend of household debt in the context of the growth of other national debts, and also to satisfy our instinctive inquisitiveness as to how large the sum of these important debts could be. To this end, we first estimated all debts as per household debt and then described their trends and other characteristics. The average household debt varied between \$31,180 and \$33,590 during 1990-1993, yielding an average increase of \$90 per year. The average household corporate debt varied between \$34,654 and \$45,183 during 1990-1993 period, yielding an average rate of an increase of \$3,510 per year. The average household federal debt varied between \$33,369 and \$45,183, yielding an average increase of \$3,938 per year during the same period. It is quite interesting to note that corporate and federal debts are growing at a pace akin to each other. The average household state debt was the smallest of all other debts in size and varied between \$3,436 and \$4,518 during 1990-1993 period, yielding an average increase of \$361 per year. On the other hand, the average household income grew from \$58,576 to \$65,196 for this period, yielding an average increase of \$2,447 per year. Some brief summaries of the trend of all these debts follows:

The average increase of per household income per year for 1990-1993 was	\$2,447
The average increase of per household corporate debt per year for 1990-1993 was	\$3,510
The average increase of per household federal debt per year for 1990-1993 was	\$3,938
The average increase of per household state debt per year for 1990-1993 was	\$361
The average increase of per household debt per year for 1990-1993 was	\$90

The data shows that all debts have been increasing since 1990. The data shows that the rate of an increase in the federal debt and that of corporate debt was close to each other. These debt-sizes are more meaningful when expressed in terms of average household income. The table below shows the sizes of debt as a percentage of average household income.

Debt as Percent of Total Household Income

³ All averages have been calculated by taking into account the amounts of debt outstanding and the numbers of households for the years we are concerned with.

	1985	1988	1990	1991	1992	1993	Rate of Change 1990-93
The Average Household Debt (survey area)	37%	43%	57%	54%	38%	43%	-4.67%
The Average Household Corporate Debt	42%	57%	59%	65%	67%	69%	0.0333
The Average Household Federal Debt	45%	54%	57%	64%	66%	69%	0.04
The Average Household State Debt	5%	6%	6%	6%	7%	7%	0.003

Data shows that our estimate of household debt equals 37% to 57% of average household income during our survey period. The average household corporate debt equals 42% to 69% and the average household federal debt equals to 45% to 69% of the average household income for the same period. It is interesting to observe that both the per household corporate and the per household federal debts are growing in a remarkably similar fashion. The per household state debt equals 5% to 7% of the average household income for the 1985-1993 period and has been growing at less than 1% a year.

The Averages of Important Debts: When All These Averages of Debt Are Added Together

pThe average size of all outstanding debts of the last year of survey, 1993.

Household Debt + Corporate Debt + Federal Debt + State Debt = Total Household Debt

$$\$11,773 + \$45,183 + \$45,183 + \$45,718 = \$147,857$$

The average household debt, average household federal debt, average corporate debt, and average household state debts (for the year 1993) have been added to gauge the enormity of debt that has engulfed the nation. The totals of these debts amounts to \$147,857 per household. The debt is intimidating in its size and raises serious questions: Is the economy heading for bankruptcy or will it collapse? We believe that the answer is no and the reasons are detailed in other chapters.

Visible debts directly affect the debtor who contracts the debt and accepts responsibility for servicing and paying the debt. Invisible debts are debts that have not been contracted by households, but they could be forced to bear a part or the entire responsibility for servicing or paying the debts. This happens when the contractor of the debt is a government of a country which fails to service or pay the debt. This possibility is inherent in the character of public debt. To explain this point further:

All debts have their own attributes. Corporate debts are generally serviced and paid off from the earnings of assets acquired by borrowed funds. As such, corporate debt does not pose a threat to be a burden in any form for households. The payment of state debts is generally secured by bonds, but state or local government debts carry some risk that the issuers may fail to service the debt or repay principal amounts. The federal debt in the U. S. on the other hand, has some peculiar characteristics: The government is prohibited by the constitution from printing dollar bills to cover deficits or pay its debt. The sale or disinvestment of government assets is not always encouraged and the attainment of a large enough surplus in the federal budget to repay the debt under present budgetary conditions is questionable. The track record of the last two decades of huge budget deficits in the U.S. government attests to this fact. The one alternative left to settle the federal debt is to tax its citizens. This will force the indebted households to participate in the program of repayment of the federal debt. If this happens, the average household debt will be much greater in size than our estimate of \$31,670 for 1993 suggests. We feel strongly that without bringing significant changes in the economic status of households, any attempt to make them pay for government debts in any form would enhance the size of household debt considerably and multiply their economic woes, giving rise to political and social unrest in the country.

Per Capita Debt

	1985	1988	1990	1991	1992	1993	Per Capita Change
Per Capita Household Debt	\$6,780	\$9,128	\$13,328	\$12,752	\$11,536	\$12,668	-\$220
Per Capita Federal Debt	\$7,635	\$10,617	\$12,518	\$14,271	\$15,780	\$16,879	\$1,454
Per Capita Corporate Debt	\$7,100	\$10,565	\$13,000	\$14,535	\$16,023	\$16,879	\$1,293
Per Capita State Debt	\$886	\$1,125	\$1,289	\$1,427	\$1,577	\$1,688	\$133
Per Capita Household Income	\$16,779	\$19,422	\$21,974	\$22,256	\$23,755	\$24,625	\$
Per Capita Interest Paid	\$748	\$869	\$1,065	\$1,132	\$1,152	\$1,135	\$

The average of per capita household debt for the 1990-1993 period (in survey area) was	\$12,571
The average of per capita federal debt for the 1990-1993 period was	\$14,862
The average of per capita corporate debt for the 1990-1993 period was	\$15,109
The averages of per capita state debt for the 1990-1993 period was	\$1,495
The average of per capita household income for the 1990-1993 period was	\$23,153
The averages of per capita interest paid debt for the 1990-1993 period was	\$1,121

The per capita federal and corporate debts, interestingly enough, appear to have been growing at apace akin to each other. The per capita household debt was almost at par with the federal per capita debt in 1990, but since then its pace of growth has fallen behind federal per capita debt by 20% to 28% for the 1990 - 1993-period. In recent times, the federal per capita debt far out paced the growth of the per capita household debt.

The Average Change In Per Capita Debt:

Per capita household debt for 1990-1993 (in survey area) was	-\$220
Per capita federal debt for 1990-1993 was	+\$1,454
Per capita corporate debt for 1990-1993 was	+\$1,293
Per capita state debt for 1990-1993 was	+\$133
Per capita GNP for 1990-1993 was	+\$884

We notice that a significant number of households -- 25% to 41% of indebted households during the period of our survey -- had loans that equaled more than 100% of their income. Any loan that exceeds 100% of income is psychologically depressing. It is interesting to note that in all four years, about 20% of indebted households had loans that equaled 50% to 80% of their income.

The size of an outstanding debt, if equal to or exceeding a person's yearly income at any point of time, becomes psychologically depressing particularly for those who have to count every penny to keep afloat and out of debt-related problems. The large size of a debt is not a problem if it is invested in acceptable assets that yield adequate income to service and repay the debt. Unfortunately, this is not the case with the household debts in mid-sized cities in the U.S.A.. A significant part of the debt is used for consumption purposes, though a part is used to purchase assets such as homes, cars and other durable goods which are not liquid in character. A part of the debt may be used to buy financial assets that might give some kind of income in the form of interest earnings, but this is usually not adequate to cover the cost of credit on these household debts. In view of the character and uses of this debt, we see that a larger debt size is regressive in its burden to households having a low income. Another interesting characteristic that emerges from the data is that households with low incomes or households living below the poverty level generally have debt sizes that exceed their yearly income. At times, outstanding debt averages can equal almost 200% of their income.

We have expressed important national debts in terms of the average household per household debt and added them together to get a glimpse of the enormity of debt that has kept the economy of this nation moving. As we stated earlier, the size of the debt itself is not something to worry about as long as it can be serviced or repaid, as is happening with federal, state and corporate debts, but this is not happening with household debts. The present

terms, conditions, and cost of debt have been matters of concern for households as well as for the present author. As of now, the direct impact of invisible debt may be minimal, but what will the situation be if the federal government decides to repay its debts? The constitution of this country prevents the federal government from printing dollar bills to cover the deficit of the federal government. Under these circumstances federal government may be forced to tax its citizens to pay this huge debt. This move would amount to a shifting of the debt to households which will enhance their burden of debt. Household leverage in itself is not something to be overly concerned with. In a modern economy, debt is required because the distribution system is not equitable. Households are compelled to borrow to supplement their incomes. There is nothing wrong with borrowing, but what disturbs the present author are the terms and the conditions and the costs of borrowing, as well as the harassment by creditors and the economic hardship that the borrowers generally undergo, especially if they fail to keep up with their payments, not because of their own fault, but because of the unforeseen circumstances that often confront them. 📖

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