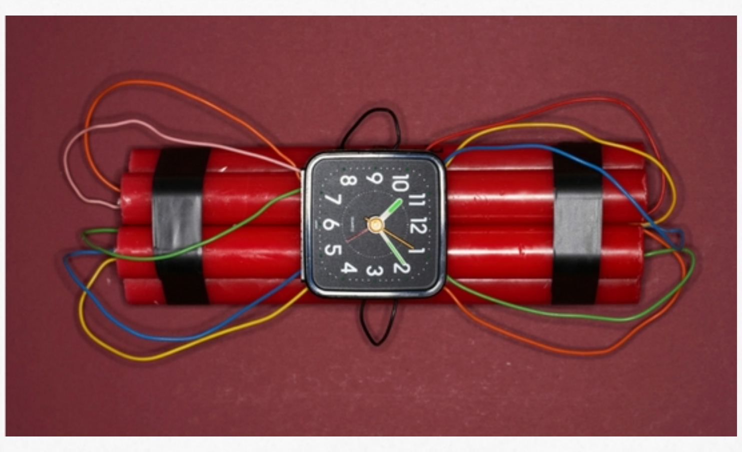
The Ticking Debt Bomb



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Tick … tick … tick … That sound you hear is a ticking debt bomb. According to the most recent data released by the Federal Reserve, outstanding credit card debt eclipsed the $1 trillion mark in February, increasing 6.2% from a year ago. Credit card debt now stands at the highest level since the 2008 crash, according to Fortune.

However, credit cards make up just one component of the debt bomb in America. Student and auto loan debt are also both above $1 trillion and rising. Total consumer credit rose by $15.2 billion in February to $3.79 *trillion*. The annual growth rate of total consumer debt stands at 4.8%.

In fact, total US household debt is on pace to break a record during 2017. The previous record set in 2008 stands at $12.68 trillion – the year of the great crash. According to a report released by the Federal Reserve Bank of New York in February, household debt hit a near-record high of $12.58 trillion in 2016. At the current pace, the record will fall sometime this year.

Mortgages make up the bulk of household debt. Student loan debt continues to spiral upward, now accounting for 10% of the total. Nearly 10 million Americans hold $200 billion in student debt. Auto loans make up 9% of household debt while credit card balances represent 6%.

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Of course, mainstream analysts and central planners view spiraling debt levels as a good thing. They want consumers to spend, spend, and spend some more. In a MarketWatch interview late last month, Dallas Fed President Rob Kaplan said Americans' ability to spend was the "key underpinning" to the better economic outlook.

"We're finally in a situation where the consumer capacity to spend is in pretty good shape," he said. "I'm frankly more worried about and watching to make sure we don't enact policies or some uncertainty that might cause consumers to take a little pause."

Think for a moment about what Kaplan is saying. Essentially, debt is underpinning of the economy.

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Conventional wisdom holds that if people will just spend more money, the economy will grow. In pursuit of this nirvana, central banks have held interest rates low for years, and engaged in other monetary policies meant to stimulate consumption. Governments have also gotten in on the act, pushing for "stimulus spending" to boost the economy. As Kaplan pointed out, the central planners have to be very careful not to upset the applecart with policies that discourage spending.

But ballooning debt levels indicate Americans have relied on credit to fund their post-recession shopping spree, which means at some point, they have to pay it back.

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And it yet again reveals the Federal Reserve has put itself into a damned if it does, damned if it doesn't situation. It wants to raise interest rates to avoid inflation. But it also needs to keep rates low so consumers will keep spending, and to keep the burden of debt repayment manageable.

As C. Jay Engel recently pointed out on the Mises FedWatch, this is the epitome of mixed signals.

> *"It's the old fallacy of spending — rather than saving — our way into growth. It's remarkable that no one talks about the fact that the economy since 2008 was built on little but cheap debt, and therefore depends on the continued flow of such debt. To raise interest rates in that environment, will lead to the very conditions that the Fed fears the most."*

It's also important to remember that debt lays claim to future productivity. Buying on credit merely pushes future consumption into the present. It does not create additional wealth. Higher consumption today necessarily means less in the future when it comes time to pay the proverbial piper.

Despite what the mainstream keeps telling you, all of this debt is not a good thing. Policymakers may be able to reset the timer, but they can't disarm the bomb. When it explodes, it will almost certainly lead to major economic disruptions.

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