

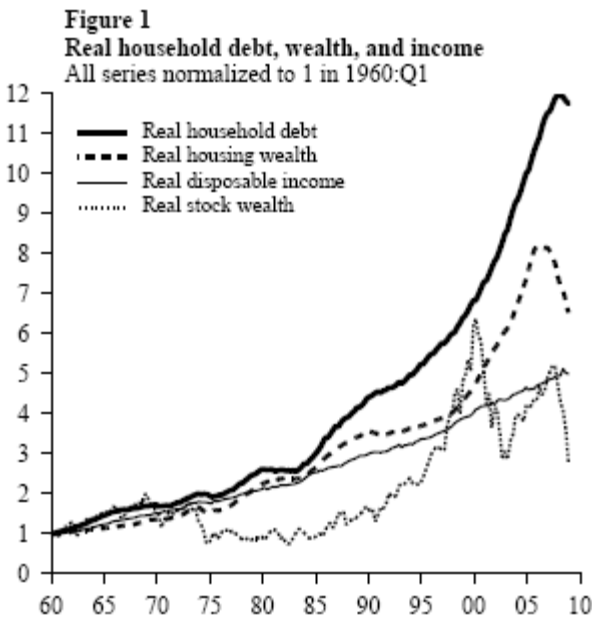
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THE DAILY DISH



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Boom/Bust



by Richard Florida

Mark Thoma [points to](#) San Francisco Fed [research](#) on the lasting effects of the past decade's run-up in consumer debt and current "deleveraging" on the U.S. economy and American consumers.

U.S. household leverage, as measured by the ratio of debt to personal disposable income, increased modestly from 55% in 1960 to 65% by the mid-1980s. Then, over the next two decades, leverage proceeded to more than double, reaching an all-time high of 133% in 2007. That dramatic rise in debt was accompanied by a steady decline in the personal saving rate. The combination of higher debt and lower saving enabled personal consumption expenditures to grow faster than disposable income, providing a significant

boost to U.S. economic growth over the period.

In the long-run, however, consumption cannot grow faster than income because there is an upper limit to how much debt households can service, based on their incomes.

Thoma [believes](#) this means recovery will be slow in coming because:

... unlike some recent recessions, this time the economy cannot go back to where it was prior to the recession, and the structural change that must occur to move resources out of housing and the financial sector and into other, productive uses will take time to bring about.