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Why a little debt isn't such a bad thing

Tim Fitzsimons

The Federal Reserve says U.S. household debt is growing, but debt as compared to income is as low as it's been in years. It’s also lower in the U.S. than it is in places like Britain or Canada.

Economists would tell you "debt" isn’t a dirty word. An increase in borrowing means an increase in spending, which means an increase in demand, which helps the economy. But having too much bad debt is where people found themselves in the recession.

"Households went through a very painful process of de-leveraging in the past couple of years," says **Bernie Baumohl, chief economist with the Economic Outlook Group.** "Bottom line is they are trying to restore some balance between the debt they are trying to service and the income they are making.”

But having your own financial house in order doesn’t necessarily help the overall economy.

“That’s been a drag on economic growth as consumers have been more cautious with their spending,” says Gus Faucher, an economist with PNC financial services

But now that many Americans have largely dug themselves out of the holes created by the great recession, Faucher expects an uptick in debt – and in spending.

“I think there is room for consumers to take on a little bit more debt – not go hog wild – but take on some more credit to fund purchases of big ticket items," he said.

While many Americans have stabilized their balance sheets, Thomas Cooley, a business professor at NYU’s Stern School, said young people have staggered under the weight of growing student debt.

“That’s a constraining factor in their ability to and their willingness to take on mortgage debt and more auto loan debt and so on,” he said.

That’s one reason why the millennials are sometimes called "Generation Rent."

From Washington, I’m Tim Fitzsimons for Marketplace.

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