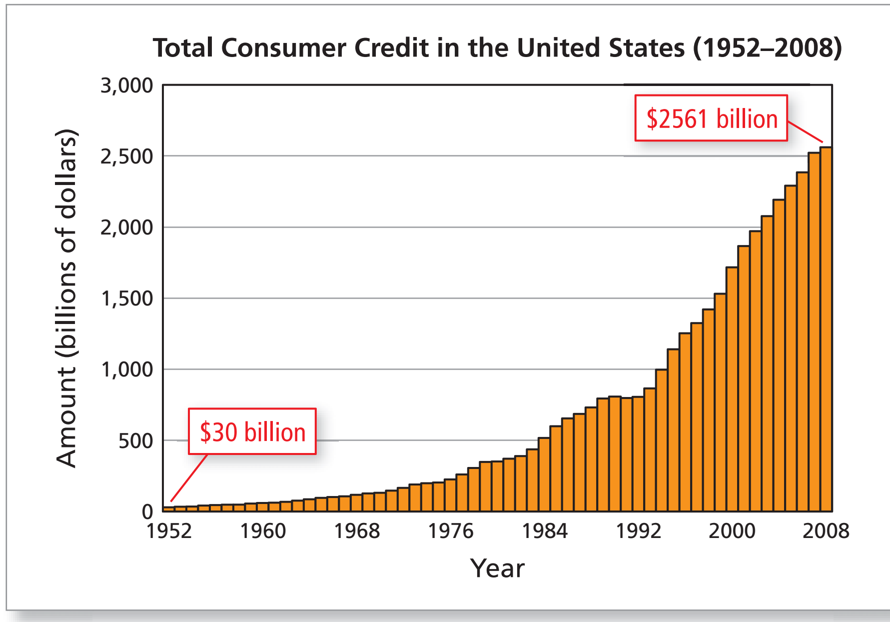
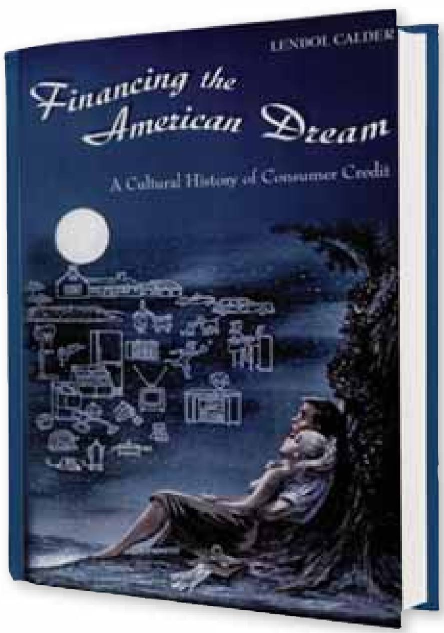
EXAMPLE 6 Comparing Two Levels of Indebtedness

The graph shows the total consumer indebtedness of households in the United States from 1952 through 2008. Was the typical household more in debt in 2008 than in 1952? Explain your reasoning.





Financing the American Dream: A Cultural History of Consumer Credit by Lendol Calder

"Once there was a golden age of American thrift, when citizens lived sensibly within their means and worked hard to stay out of debt. The growing availability of credit in this century, however, has brought those days to an end—undermining traditional moral virtues such as prudence, diligence, and the delay of gratification while encouraging reckless consumerism. Or so we commonly believe. In this engaging and thought-provoking book, Lendol Calder shows that this conception of the past is in fact a myth."

SOLUTION

At first glance, the answer looks obvious. However, there are two things you need to consider before reaching a conclusion. First, you need to account for the increase in population. Second, you need to account for inflation.

Year	Total Indebtedness	Number of Households	CPI
1952	\$30 billion	46 million	26.5
2008	\$2561 billion	117 million	215.3

In 1952, the average indebtedness per household was about \$700. In 2008, the average indebtedness per household was about \$21,900.

So, the average indebtedness per household increased by a factor of about 31. During the same time, the CPI increased by a factor of only about 8.

So, you can conclude that the typical American household was more in debt in 2008 than in 1952.

✓ Checkpoint

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What is your opinion about the increased consumer indebtedness that has occurred in the United States during the past 60 years? Do you think it is a national problem? Or do you agree with historians like Lendol Calder, who believe that the comparison between "now and then" is not as straightforward as it appears at first glance? Explain your reasoning.