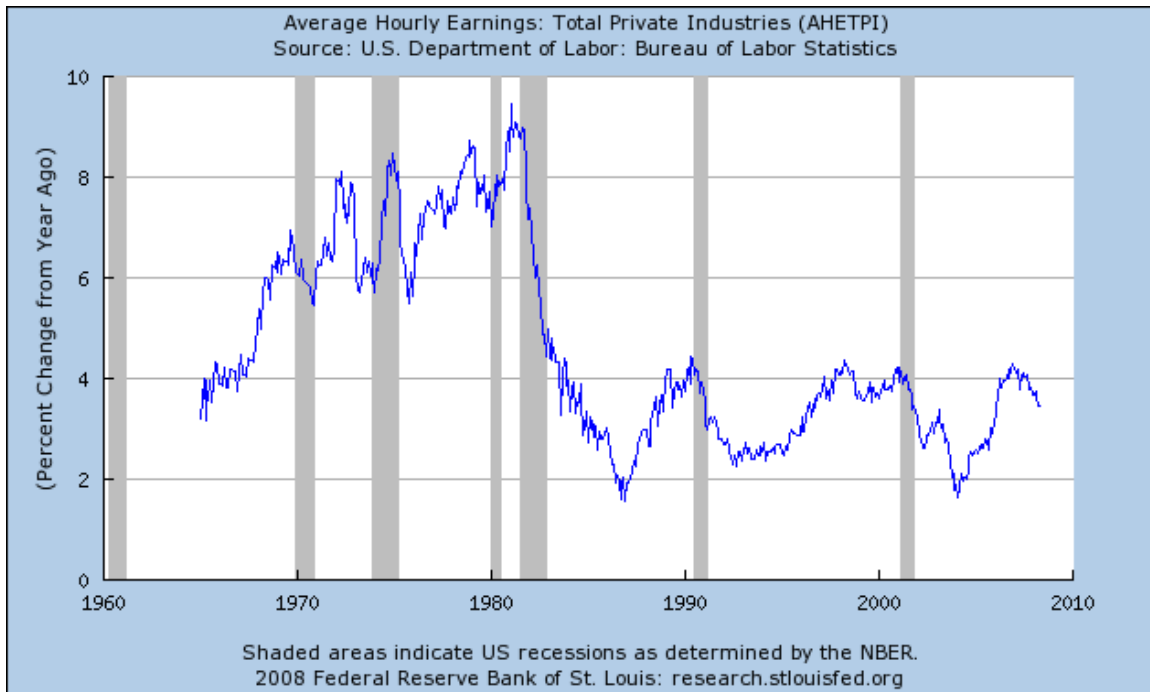


# THE ROAD TO RUIN: SELLING ASSETS TO CONSUME

## 2008.06.23

The average inflation rate (CPI) since 1983 has been approximately 3%. If one were to estimate the average hourly earnings over the same period, it would appear to be around that same 3% level (see chart below). In other words, on a real basis (ex-inflation) there has been no growth in wages since 1983. Do you suppose this is the reason debt has increased so rapidly? In order to maintain one's place in society while experiencing no real growth in income, borrowing became the path to nirvana.

Recent reports indicate the consumers have turned to liquidating and/or borrowing from their 401(k)s to maintain their lifestyle. In other words, we are, as a group, selling our hard-earned assets to maintain consumption. This is the consumer equivalent of a corporate Budweiser selling their assets to foreigners. *We are eating our seed corn.* This is what a weak dollar, coupled with lack of income and heavy debt, has done to us. And that's the *better* news—the worst is that it has only just begun.



Adapted from [StLouisFed.org](http://StLouisFed.org)