A Burning Debt

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Structure of the presentation

1. An empirical analysis of household finances in US

2. The macro consequences:

    - Stagnant personal consumption expenditures

    - Internal exports: the resilience of the system

    - Exploitation and financial hierarchies: the capture of the state

The Study

- US Fed Survey of Consumer Finances 1989-2016

- The United States is paradigmatic case:
  - Social Security/Pension reforms
  - School system
  - Housing market
  - A dual economy
  - **Debt-heavy system lasted for decades**

- Also tricky:
  - Many state-level differences
  - City vs countryside

Debt to Income in Bottom 50% and 50th-95th Percentiles of Income and Per Capita Income*

DEBT TO INCOME BY INCOME GROUP		
	0-50th	50th-95th
1989	59.0	91.4
1992	75.0	92.1
1995	80.9	99.6
1998	90.9	111.3
2001	90.8	100.6
2004	124.3	139.1
2007	122.0	160.8
2010	133.3	153.5
2013	115.4	140.0
2016	108.5	129.0

DEBT TO INCOME BY ADJ INCOME		
	0-50th	50th-95th
1989	84.78	87.24
1992	97.37	88.11
1995	106.47	92.85
1998	117.35	106.95
2001	108.45	95.64
2004	150.24	132.05
2007	167.21	149.31
2010	176.97	148.72
2013	143.11	135.10
2016	135.18	129.32

- When you control for the number of household members, the bottom 50% has a higher debt to income ratio than the top.
- Different income groups present comparable trends and ratios, but their respective motives for and portfolio of debt as well as financial fragility differ.

A dual [debt] economy (Temin 2016, Storm 2017)?

*(Household income –paid alimonies)/ number of household members

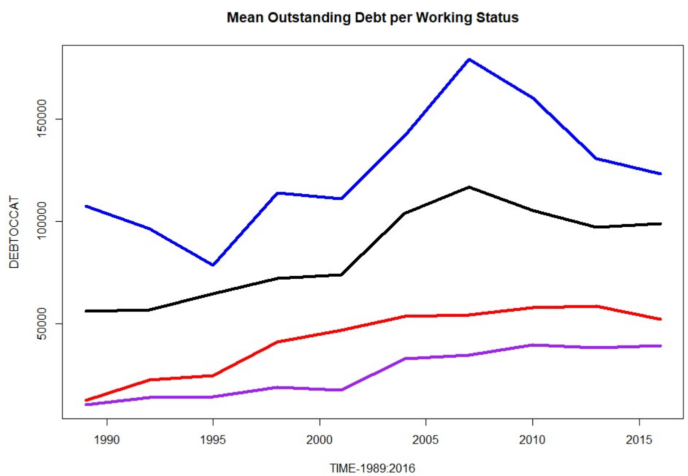
Percentage of Families with Debt and Types of Debt

FREQUENCY OF TYPES OF DEBT ON TOTAL DEBTS			
	MORTGAGES	CREDIT CARD	EDUCATION LOANS
1989	50.1	56.9	14.2
1992	52.5	62.0	14.5
1995	52.6	65.9	15.5
1998	58.7	61.3	14.9
2001	59.1	60.3	15.3
2004	62.0	62.5	17.1
2007	60.2	61.9	20.3
2010	63.3	54.6	25.6
2013	57.7	53.2	26.5
2016	53.3	58.5	28.4

PERCENTAGE OF FAMILIES WITH DEBT					
	0-20	20-40	40-60	60-80	80-95
1989	46.7	47.6	55.6	66.9	84.2
1992	48.4	44.9	59.9	70.1	83.2
1995	44.2	48.3	57.1	70.5	84.1
1998	41.5	47.5	62.3	72.5	85.3
2001	42.0	50.6	64.9	71.8	85.6
2004	43.7	58.7	59.4	77.5	85.4
2007	46.1	49.8	60.7	77.4	89.0
2010	49.8	46.5	63.1	74.0	86.7
2013	54.0	49.5	59.7	73.2	86.9
2016	58.0	55.9	63.8	80.1	88.0

- The frequency of indebted people increases across quantiles but most pronouncedly in the lowest one and in the 60^{th} to 80^{th} percentiles.
- The percentage of mortgages falls since 2010 and in 2016 below credit cards. Education loans keep growing

Working Status Matters



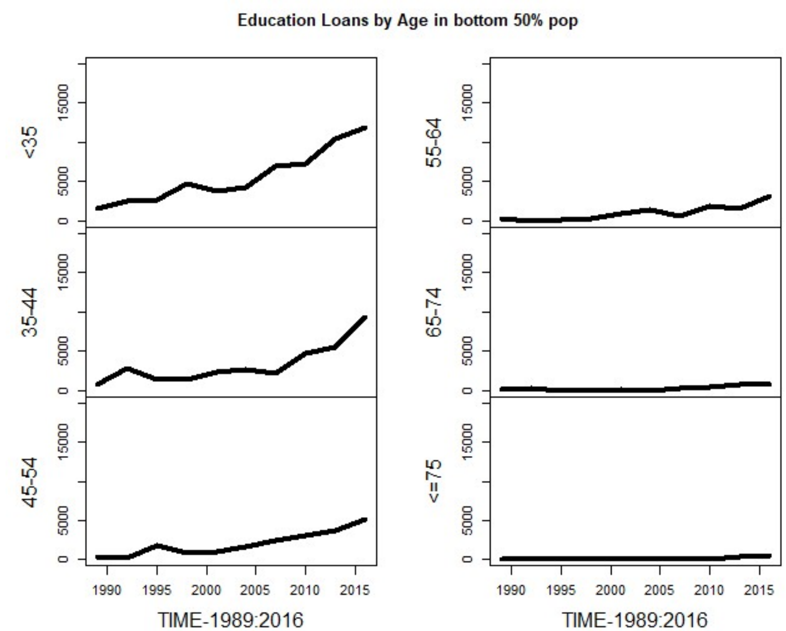
work for someone else
self-employed/partnership
retired/disabled + not working and age 65 or older
other groups not working under 65

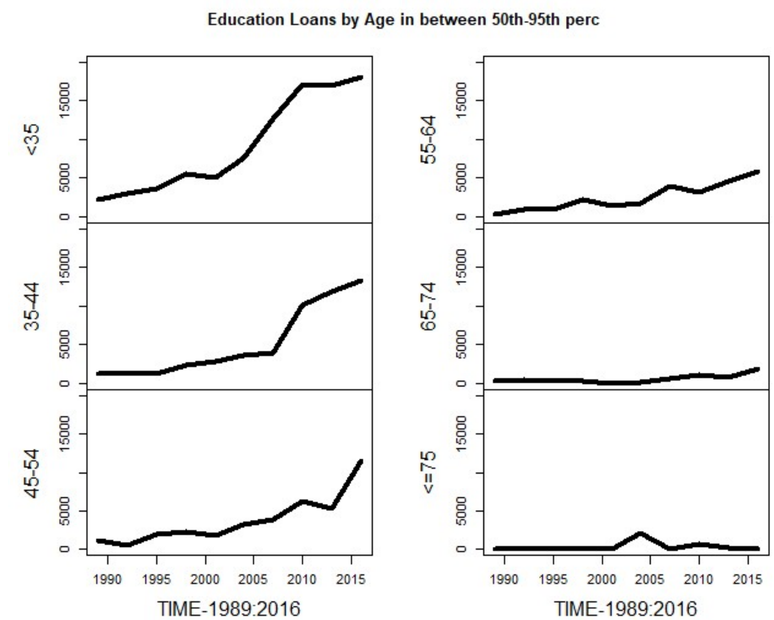
Debt to income ratio of households older than 75 who expect to work until they die

1989	21.7
1992	27.4
1995	27.1
1998	42.8
2001	37.1
2004	121.1
2007	84.6
2010	82.1
2013	87.6
2016	114.1

- Self employed have more income variability and make more use of debt
- Surprising rise of mean debt of retired/disabled + other household whose head is older than 65 and not working: major role of pension reforms.

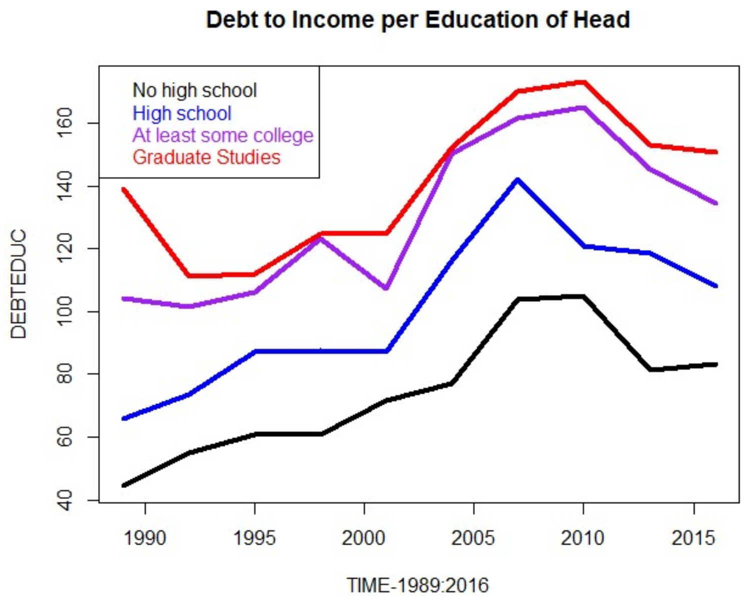
Mean Real Value of Education Loans by PC Income and Age

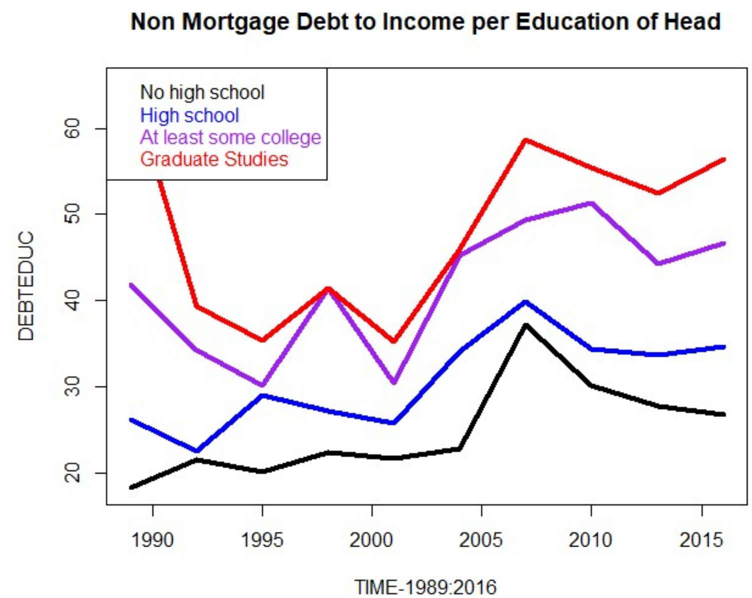




- Households take longer to pay back debt
- Mean value of education loans are growing in both adjusted income groups.
- Households carry it for a longer time: problem with ‘return on investment’?

Debt to Income by Education of Head





- Unsurprisingly, indebtedness increases with education – also non mortgage.
- Rising trend especially steep for Bachelor holders.
- The upward trend picks up after 2001: at the beginning of a decade of unprecedented stagnant wages at the top of the bottom 95%.

Where does financial fragility reside?

- The dynamics of housing prices was a factor of fragility especially for the middle class, whose portfolio was concentrated in residential wealth.
- The groups from 40th to 95th percentiles incurred more often in bankruptcies.
- But they were also fired more often in the previous two years of each Survey year.
- The impact of health care expenditure on bankruptcies is widely documented

DID YOU BANKRUPT IN THE LAST 5 YEARS?					
	0-20th	20-40th	40-60th	60-80th	80-95th
1998	1.4	3.5	5.4	5.4	4.4
2001	1.3	2.4	6.2	5.9	4.9
2004	3.2	3.3	3.4	6.0	5.8
2007	2.9	3.2	4.4	5.1	3.9
2010	1.7	3.0	3.6	4.6	4.1
2013	2.9	2.7	3.4	5.4	5.7
2016	1.7	2.8	2.2	3.2	4.1

LAID OFF HEAD OR SPOUSE AND STILL UNEMPLOYED					
	0-20th	20-40th	40-60th	60-80th	80-95th
1998	1.7	1.7	1.6	1.5	1.2
2001	0.9	2.2	2.6	1.4	1.6
2004	1.4	0.2	1.4	2.1	1.8
2007	1.1	0.9	1.8	2.5	1.3
2010	1.4	1.2	2.1	2.1	2.6
2013	1.3	1.7	1.8	2.2	2.0
2016	0.6	1.4	1.8	2.4	1.3

But Financial Difficulty is Spread

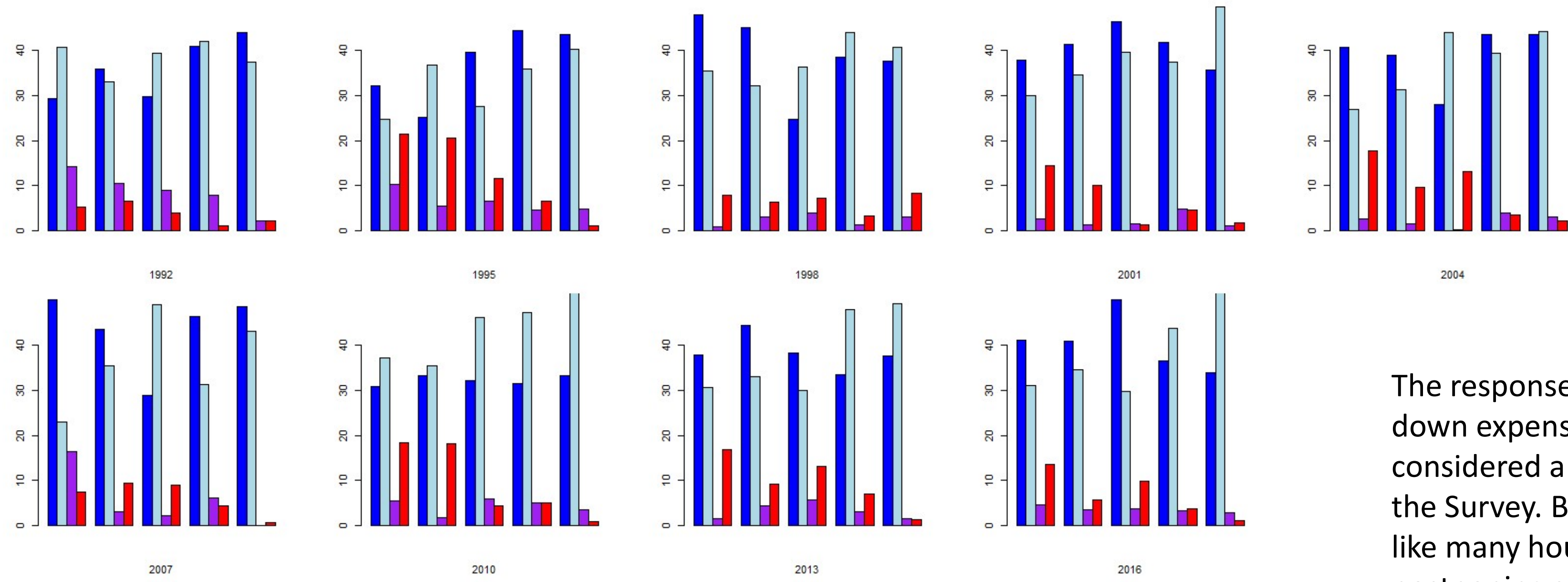
If late payments occur more often in the upper classes, the occurrence of negative or zero savings is more frequent in lower adjusted income groups

	SPENDING EQUALED INCOME				
	0-20	20-40	40-60	60-80	80-95
1989	23.6	47.9	42.7	21.3	16.1
1992	49.8	48.9	39.3	28.4	21.0
1995	45.8	42.3	48.6	31.0	24.7
1998	51.4	52.6	41.4	29.8	24.4
2001	52.6	44.7	35.5	26.0	20.0
2004	46.7	41.0	41.4	33.5	22.6
2007	44.6	45.4	40.1	33.1	21.6
2010	44.8	43.1	38.3	35.2	27.4
2013	42.2	47.3	43.4	36.4	27.4
2016	41.6	45.1	40.0	31.4	23.9

WERE YOU LATE IN YOUR PAYMENTS?					
	0-20th	20-40th	40-60th	60-80th	80-95th
1989	16.3	14.6	20.1	20.0	19.3
1992	12.2	11.8	11.4	12.9	13.0
1995	9.9	10.3	14.3	20.2	21.0
1998	14.3	15.4	14.8	19.8	18.4
2001	11.6	14.7	17.3	16.3	14.0
2004	15.9	15.3	18.5	17.5	18.0
2007	23.2	25.0	25.7	27.8	19.0
2010	16.8	15.1	20.1	19.8	17.8
2013	15.5	13.2	14.4	17.2	17.2
2016	18.1	12.7	15.6	16.5	13.1

	SPENDING EXCEEDED INCOME				
	0-20	20-40	40-60	60-80	80-95
1989	20.0	12.2	12.0	7.6	4.5
1992	21.2	23.6	20.7	16.7	13.6
1995	26.9	23.0	16.8	20.0	11.7
1998	19.6	16.6	20.7	17.5	12.4
2001	24.8	21.0	21.5	14.5	11.3
2004	26.5	21.2	18.8	17.2	13.6
2007	17.8	21.3	22.8	15.3	14.0
2010	23.0	25.0	23.0	17.1	14.6
2013	27.6	19.3	19.7	17.8	12.0
2016	24.5	23.5	20.4	14.6	11.8

How do they make up the difference?



1 Borrowed money
2 Spent out of savings/investments
3 Got behind on payments/ didn't pay bills
4 Help from others

Frequency by quantile of adjusted income:
0-20th 20-40th 40-60th 60-80th 80-95th

The response "Cutting down expenses" is considered a mistake in the Survey. But it seems like many household are postponing spending (especially health care treatments) or withdrawing from liquid pensions (Dushi et al. 2010)

Debt and Inequality

- The bottom 50% of the per capita income distribution holds less debt but carries the highest D/Y. Despite the crisis, its total non-mortgage debt kept growing.

- In 2016, the post-crisis reduction of indebted families reverted. The frequency of credit card debt exceeded that of mortgages for the first time after 1998.

- Education loans and the debt of the retired/disabled grew regardless of the crisis. The debt of the unemployed grew too but slowed down after the crisis.

- The 60-95th group and the most educated of the population hold the greatest number of mortgages and debts in general as well as the highest real mean value of debt.

- The crisis did not affect significantly (or for a long time) the households at the top of the wealth distribution.

Debt and Policy

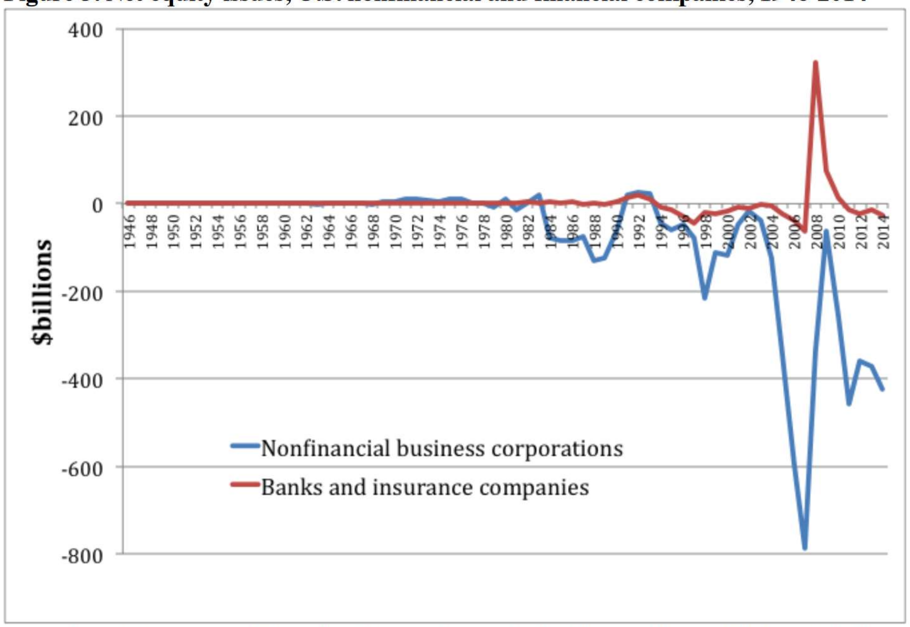
- Direct effect: incentives to households, deregulation of key markets
- Indirect effect: privatization of key markets (school system…), pension reforms
- Defined Benefits vs Defined Contribution (more liquid, volatile, harder to prepare appropriately for retirement (Dushi et al 2014, Ghilarducci 2014))
- A strive for residential wealth is a typical result of greater income and wealth insecurity, esp after pension reforms (Fassler and Schuerz 2015).

2 The Macro Consequences: Internal Exports and Rentier Capitalism

- Public and firm debt create the conditions (revenues) for it to be repaid.
- Household debt is not necessarily related to future employment and wages
- However it generates revenues for firms and banks, who then may start new investment plans and increase employment
  - Rate of growth of personal consumption expenditures has been declining or stagnant since mid 70s but less than income
  - Household debt and spending sustained jobless recovery after 2001

Where did revenues go?

Figure 3. Net equity issues, U.S. nonfinancial and financial companies, 1946-2014

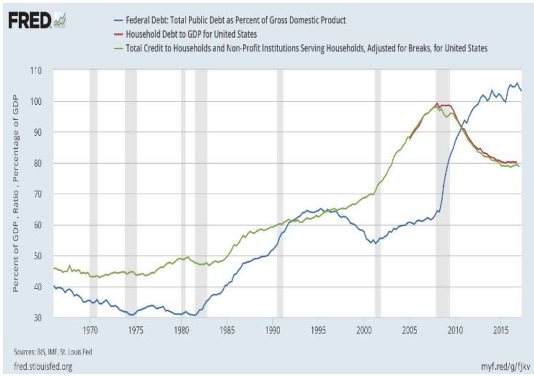


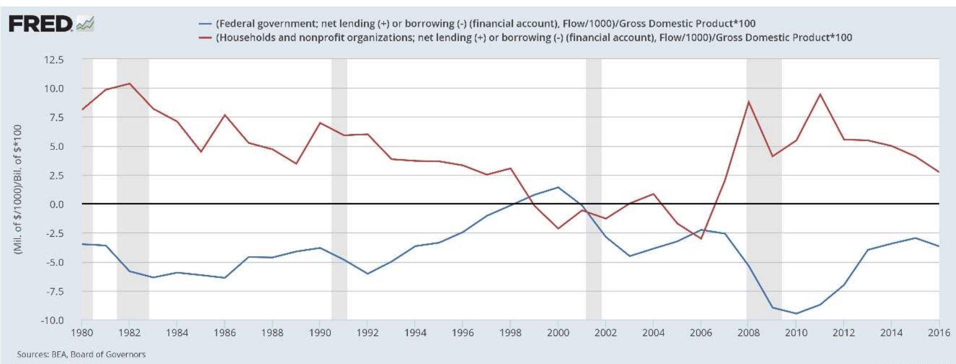
Source: Board of Governors of the Federal Reserve System, Federal Reserve Statistical Release Z.1, "Financial Accounts of the United States: Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts," Table F-213, "Corporate Equities", March 12, 2015.

Source: Lazonick 2015

- In a context of inequality and loss of "good jobs" (Storm 2017), household debt sustained revenues of firms
- Firms did not return the favor
- Maximizing shareholder value ideology and the downsize and distribute corporate model (Lazonick 2000, 2015, 2016)
  - Marketization of labor relations with end of career in one company and jobless recoveries
  - Focus on short term profits and redistribution through stocks buybacks

How can this system persist? The Role of Internal Exports





- Persistence of a hh debt-fueled dynamics lays in the interaction between household and public debt

- Public policies encouraged debt

- HH net borrowing and net public spending as internal exports (Luxemburg 1913, Kalecki 1971)
  - Since the 90s, household net borrowing mimicked a retrenching public spending, stepping in as a source of revenue, even during crises (2001).
  - Public spending intervened in emergencies with *timely and short-lived* public fiscal and monetary actions (Bernanke 2008).

The Political Advantage of Temporary Measures

- Household net borrowing as internal export appeases competition among firms and between firms and workers.
- Household credit has lifted the government from the short term consequences of reducing official public spending
  - Governments then intervened in 2008, only to draw back when the emergency was over
- It is consistent with the idea of *economic alarmism* (Caffè 1979): it is most convenient to reduce prudential economic interventions in order to take advantage of the emergency to apply measures that do not command democratic support by depicting them as necessary
  - In 2008, lavish the financial sector and the financialized non financial sector with public money (Stiglitz 2010)

Fire in the Warehouse

- The consumption of unproductive workers is “[...] just as necessary and as useful with a view to future production, as a fire, which should consume in the manufacturers warehouse the goods which those unproductive labourers would otherwise consume”

  (Ricardo 1951, p. 421)

- Is household debt our fire in the warehouse?
  - it *consumes* or exhausts the conditions for productive investments and growth and social and political change to happen?