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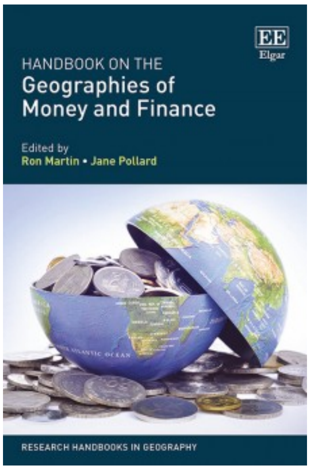

GEOGRAHIES OF MONEY AND FINANCE

Geographies of Assets and Debt

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[main heading] Introduction

In this paper we focus on the geographies of individual and household debt.[1] Rising household debt has become an issue of increased concern across many nations. We consider two important contributing factors to this rise in debt; first, the global rise in financial services and institutions seeking to expand their market share of consumer credit. Second, the dismantling of public welfare provision and the shift towards individualization and personal asset-building.

Historical accounts suggest that debt actually appeared much earlier than money (Graeber, 2011). Though our focus is on contemporary societies, the anthropological history of debt underscores the central social role of debt observed today, such as facilitating economic exchange, creating interdependencies and social ties, and exerting political power through debt obligations. In modern times prior to the 1980s the use of debt, or consumer credit, was deemed to be beneficial, enabling consumption smoothing and providing a coping mechanism in response to sudden and temporary loses of income (Valins, 2004). The idea being that over the life course an individual's debt and savings balance each other out; debt concentrated in the early stage, is repaid during middle-age and savings and asset are accumulated in later life – something referred to as the life cycle model (Modigliani and Brumberg, 1954). Using credit or borrowing therefore was perceived as normal consumer behaviour, with a certain level of debt being inevitable for most people (Betti et al., 2001).

Household debt became a concern to economists and policy-makers at national and international levels following the relaxing of financial constraints in many western nations during the 1980s and 1990s. This opened up credit access to households lower down the income stream whilst also providing favourable rates to higher income earners (Valins, 2004). In the decades following the de-regulation of financial services household debt levels increased, reaching historically high levels across many OECD nations by the mid-2000s (La Cava and Simon, 2005; Girouard, et al 2006; Valins, 2004). The expansion of financial services also spread credit and debt to previously excluded developing countries (Soederberg, 2014, 2013a). As a result turning modern capitalism into a 'debt economy' (Lazzarato, 2012).

Sokol (2013, p.505) argues that "credit–debt relationships have been contributing a great deal to the exacerbation of socio-spatial inequalities in the run up to, and during, the 2008 global financial crisis". In this context, debt becomes a key analytical focus in understanding the geographies of money and finance. Sutherland et al. (2012) show how debt migrates and cascades across sectors (household, non-financial corporate, financial, government), high debt especially amplifies risks and weakens economic recovery after recessions. From a geographical perspective external sovereign debt crises – that is state obligations to another jurisdiction, usually in another currency (Reinhart and Rogoff, 2009) – have a stronger spatial element as they are linked to global economic interdependencies and inequalities of wealth. External debt crises can affect single countries (for example Greek or Argentinian credit crises in the 2000s) and regions (Latin America in the 1980s; Cline, 1995). On a global scale it is also related to inequalities between developing and advanced economies, fuelled by loans from the International Monetary Fund and the World Bank, which led to the debt crisis of several developing countries around the early 2000s, especially sub-Saharan Africa (Millet and Toussaint, 2004). On the other hand there is also increasing concern in a reversal of this trend (Wang and Walters, 2013). Developed nations are increasingly indebted to developing nations who hold large foreign exchange reserves (for example US and China).

The global financial crisis (GFC) of 2008 demonstrated the causal link between spiralling household debt and sovereign debt within Lazzaroto's (2012) new 'debt economy'. The default of several private banks and anticipated collapse of the global banking system had allegedly been prevented through public bailout programmes in almost all Western societies (see Priemus and Whitehead, 2014).

Notwithstanding these links to the special distribution of debt our focus is on the geography of household debt. Traditionally problems of indebtedness had focussed on households in lower socio-economic groups. Debt most often arose as a consequence of missed utility (for example energy and water) or housing payments (EQLS, 2013), or a change in personal circumstances for example following the birth of a child, illness, unemployment or breakdown of a relationship (Valins, 2004). Whilst such concerns are still important in understanding and dealing with financial problems and financial exclusion (for example see Hartfree and Collard, 2014), the crisis in the banking system during 2006-07 marked a turning point. Personal debt had become caught up in financial systems which operated on an international scale. Servicing debt, especially mortgage debt, was no longer a national concern of low income groups, but spread across the whole social spectrum and the globe (EQLS, 2013; Faber, 2011; Oxfam, 2013).

Although much academic and political attention was focussed on financial vulnerability to interest rates and income shocks, two key elements had been overlooked. First, the changing nature of debt and the financial systems which fed into it had been neglected. This was particularly in respect of home purchase and the globalisation of mortgage finance. The unsustainability of this new mortgage market, as noted above, being directly linked to the GFC (Mian and Sufi, 2014). Second, the move towards a system of asset-based welfare had increased the exposure to debt and financial markets. Households were encouraged to build up their own resources in the form of financial (savings and pensions) and non-financial (housing) assets. But what had been overlooked was how much of this asset-based welfare was in fact underpinned by growing household debt.

This paper will address these issues in turn. First, we provide a definition of assets and debt. Second, we conceptualise debt and assets over the life course. Third, we set out the extent of household debt drawing on international and regional comparisons and also within different household and individual characteristics. Fourth, we point out the politics of debt and policy responses to increasing personal indebtedness. Fifth, we discuss why debt has become so important by reflecting on the theoretical shift towards asset-based welfare and the drive to increase individuals' savings and wealth accumulation, which, in practice, contributed to rising debt levels and increased vulnerability. We conclude the chapter in the final section. Throughout the paper the focus will be on housing, arguably the key contributing factor to rising household debt, and through its inextricable connection to place demonstrates how the geography of mortgage debt connects local property assets with global financial markets and has inherently turned into a socio-spatial issue of global dimension (Aalbers 2009).

[main heading] Definitions of assets and debt

Assets are also referred to as capital. They can be physical (such as a car, house), financial (stocks and shares or other investments), social (the network of people we know) or human (skills, level of education). Assets provide a stock of wealth which can provide a return or income flow, for example interest earned on savings, or the rental income or services provided from housing (Searle and Köppe, 2014).

Defining debt is more problematic due the different forms it takes, and the difficulty of distinguishing between debt and credit. Indeed some scholars refer to credit/debt arguing they are an 'inseparable dyadic unit' (Peebles, 2010, p126). There are also different types of debt which often fall under different types of regulation adding further complexity to its definition. Examples of debt and their definitions are given in Box 1.

Box 1: Types of debt
Student loans are available to students at higher education institutions to pay for fees and/or maintenance. They are often managed by public bodies with no or very low interest rates, but also private banks offer student credit at market prices. Repayment of student loans may be taken directly from the payroll. **Later life loans**. The new German *caregiver leave (Pflegezeit)* is to our knowledge the first nationwide policy that provides interest-free loans to care for elderly relatives (BMFSFJ, 2015). While student loans are common in many countries, government supported loans for specific social purposes later in life are a new policy development. **Mortgages** are used to finance property purchases and have a long-term investment horizon. Usually offered by banks, some countries have dedicated mortgage lenders. Public regulation can fuel or limit the access of mortgage credit through loan-to-value ratios, tax deductions and other means. Mortgages traditionally were used only to purchase a home. More recently, they can be used to withdraw equity from the home (Smith and Searle, 2008). Flexible mortgages for example allow the home owner to increase existing mortgage debt, whereas reverse mortgages enable outright home owners to release equity by borrowing against the value of their property.

Consumer credit is a form of debt which can be used on a long-term basis (for example leasing a car or other consumer goods such as TVs or white goods), or short-term basis such as credit cards or pay day loans to cover more immediate income and expenditure needs.

The terminology of debt includes other notions such as secured and unsecured loans, credit, indebtedness and liabilities often with fuzzy distinctions. For some a defining feature of 'credit/debt' is its ability to link time and space: 'credit is a method of lending resource in the present and demanding (or hoping for) a return in the future' (see Peebles, 2010, p. 226–7). It can also be underpinned by a moral stance creating a hierarchy between beneficial and liberating credit, and burdensome debt (Peebles, 2010). Credit implies an arrangement for borrowing that people want to enter into, whereas debt is a financial commitment that people are struggling to repay and can be a cause of financial stress (Berthoud and Kempson, 1992; Lea et al., 1993).

Here we use both terms – credit and debt – and refer to negative and positive connotations that different forms can take. Generally 'good' debt or credit, assumes agency and control over the liabilities. Debt can be considered positive where it gives households the financial flexibility needed to meet consumption needs at a point in time when saving would take too long. From a macroeconomic perspective debt can be positive where it fuels consumption growth which benefits the economy. Positive aspects of debt are also often associated with long-term investments that have a guaranteed rate of return or are used as an investment, such as student loans (investing in human capital), mortgages (investing in property), car leasing (facilitating or investing in wider employment opportunities). Debt is also perceived as good when it is secured through an investment or physical asset (for example mortgage or business).

Negative aspects arise when the debt becomes a burden and in the case of over-indebtedness becomes unmanageable and spirals into increasing levels of debt. Some scholars associate debt, or over-indebtedness with a lack of self-discipline, or even carelessness which constrains consumption and has a negative impact on the economy (Marron, 2012; Weinberg, 2006). Debt can be perceived as bad where it is associated with imposed debt (for example court-imposed fees) and high cost short-term lending (such as pay day loans; see Valins, 2004).

Difficulties arise when debt starts out being good, where it is manageable and in some instances encouraged, but which due to a change in circumstances or behaviour, can turn bad and become unmanageable. For example, unsecured credit card loans can be managed very well, without incurring any interest payments. As long as individuals can serve their monthly credit card bill, a free credit card loan buys enough time to access fixed savings (for example with 30 days' notice) to pay for emergency expenses (such as a broken washing machine). However, credit card loans can turn bad if they are used for other purposes such as long-term loans for example to buy a car, or meeting general living costs such as paying rent or mortgages, which would then incur additional interest charges. They can also turn bad where low or postponed monthly payments incur interest charges or late payment penalties, of where excessively high interest rates quickly exceed the size of the original loan, thereby increasing the debt burden.

[main heading] Debt over the life cycle

Savings and debt fluctuate over the life course. Debt tends to be higher during the earlier stages of the life cycle when incomes and savings are lower. Debt tends to reduce during later stages of the lifecycle, when income is reduced as people reach retirement age, and savings have accumulated. This connection of saving and debt over different life stages has been formalised in the lifecycle hypothesis (Modigliani and Brumberg, 1954). The assumption being that people maintain more or less constant consumption during their life by adjusting their borrowing and saving behaviour in line with income changes. This hypothesis has been criticised on many grounds (Japelli, 2001; Kuehlwein, 1995). As Kotlikoff (1986) and Rubaszek and Serwa (2014) note, before young adults earn any income they acquire a huge debt both in financial terms but also in-kind benefits from their family. Moreover, saving is assumed to be linear, not taking into account interruptions such as unemployment, child care or illness, where people have to dip into their savings or in the absence of savings accrue debt. In addition, consumption is far from constant over time. For instance, health care consumption is concentrated on the final years or months of life, when income is declining as well.

These fluctuations of income and consumption have been studied empirically and globally with the National Transfer Account (NTA) framework to estimate the life cycle deficit for 23 countries (Lee and Mason, 2011, Fig. 3.1; www.ntaccounts.org). Looking only at income and consumption most people in their early 20s have accrued substantial nominal deficit. During their active working life their income outweighs their consumption until their income declines around 65 and their consumption increases even further. These general trends can be observed both in developed and developing nations. Overall these estimations suggest that people would accrue a huge life-cycle deficit as consumption seems to outweigh income. However, when returns of savings and strategic debt are included the lifecycle deficit becomes balanced. "Relying on assets generates the additional resources required to fund lifecycle deficits" (Lee and Mason, 2011, p.10).

[FIGURE 1 HERE]

Figure 1 depicts this lifecycle balance. In the figure private and public transfers refer to pay-as-you-go exchanges of money (and time as monetised in-kind transfers). Asset-based reallocations are net asset income (income from assets minus saving). Positive asset income, or an inflow in the NTA terminology, includes among others interest income, profits, dividends, imputed rent from owner-occupied housing. Negative asset income is measured, for instance, as interest expense, losses, dividend paid. Dissaving contributes to a positive asset income, while saving reduces the net income.[2] The disaggregation into age groups reveals the accumulation and usage of assets over the life-course.

Generally speaking Figure 1 underscores the relevance of private asset-based reallocations to finance consumption over the life-course. Most of these returns are generated through taking up mortgage debt early in life (Lee and Mason, 2011). Assets are also far more relevant in developing countries and liberal welfare states than in societies with generous and well developed public transfer systems (reliance on assets varies between two-thirds to less than one percent). In middle-income countries especially, the elderly rely heavily on asset income. Moreover, these figures underscore earlier results that the elderly are not dissaving, especially non-annuitized wealth (Rowlingson, 2006; Spilerman, 2000).

In sum, over the life course individuals acquire positive net assets not only through saving, but also through taking on debt, mainly mortgage debt. The relevance of these asset-based reallocations varies considerably between countries and is inversely related to public transfers. Although the data overall show that on average there is a positive accumulation of assets at the end of a life-course, nonetheless debt has increasing relevance in financing personal consumption.

[main heading] The rise in debt

During the twentieth century access to finance had become an important element of economic development and growth (Claessens, 2005). Improving access to credit and finance was deemed beneficial to the economy as a whole. Increasing access to borrowing, it was argued, provided individuals with greater control and flexibility in governing their own finances, enabling consumption thus facilitating economic growth (Marron, 2012). Widening access to credit, was deemed beneficial to individuals through reducing inequality and poverty, and facilitating consumption smoothing (Claessens, 2005). This belief in benefits of the financial system and the role of credit underpinned the relaxation of financial regulations by many Western states during the 1980s and 1990s. Deregulation liberated and expanded the financial sector, creating new competitive credit markets. In the decades that followed financial companies actively pursued excluded and vulnerable sections of the population, permeating into each strata of society to the extent that virtually every household and individual borrowed (Stenning et al., 2010). In consequence there was a notable increase in household debt across many nations worldwide (La Cava and Simon, 2005; Girouard et. al., 2006; Pinsloo, 2002; Valins, 2004; World Bank, 2010). For example in the US credit card debt spread spatially and towards low income households from the 1970s, fuelled by the ability to bypass stricter state laws when banks were allowed to borrow across state borders (Soederberg, 2013b). Furthermore, geographers increasingly acknowledge the cross border implications of personal household debt. For instance, remittances, that is payments of immigrants to their home country, are used as a source for welfare expenses instead of credit (Ambrosius and Cuecuecha, 2013). Other examples show that migra-loans are used to cover the upfront costs of migration in the hope for future remittances or to smooth consumption of irregular remittances (Bylander, 2014). Both examples point out new private cross boarder debt that is not recorded in official international debt surveys.

Acknowledging the limitations of national debt records, Figure 2 shows total household financial liabilities using data from the 22 OECD nations where full information is available. Total long-term loans (mostly consisting of mortgage debt) saw a threefold increase from $7.7 trillion in 1995 to a peak of around $23.6 trillion in 2009, since then there has been a noticeable decline. Short-term household liabilities (such as credit cards and other short-term credit) rose steadily from $1.9 trillion in 1995, and continued to rise through the global recession reaching $4.5 trillion in 2013.

[FIGURE 2 HERE]

Although overall debt levels began to fall after 2010, the debt burden on households remained high (see also World Bank, 2010). Where information is available, average household debt as a proportion of net household income rose from 83 percent in 1999 to 140 percent in 2010, but had only fallen to 127 per cent by 2012 (OECD, 2014). The debt to income ratio increased between 1999-2012 across nearly all the OECD nations (Germany and Japan saw a fall of 23 and 7 percent, respectively). Although the highest ratios achieved during the period were in some of the richer OECD countries, they spanned a diverse range of welfare regimes such as Denmark (356 percent), the Netherlands (312 percent), Ireland (238 percent), Norway (214 percent) and Switzerland (201 percent). Substantial increases to their peak ratio were also seen across several Eastern European countries (Estonia from 18 to 112 percent , Hungary 13–79 percent , Czech Republic 21–67 percent, Poland 11–61 percent and Slovak Republic 17–55 percent, see figure 3).[3] The highest household debt levels are rooted in expanded mortgage markets. Countries who liberalized lending practices, encouraged homeownership and provided mortgage tax relief showed the highest levels and increases in debt (Andrews, 2010; Howard, 1997).

[FIGURE 3 HERE]

Analysis by Girouard and colleagues (2006) show that although household debt levels vary across nations, the characteristics of debtors are fairly consistent. Household debt patterns loosely reflect the life-cycle theory of consumption. They find that the proportion of indebted households is highest among younger households (under 35 years) who are borrowing against future income. Indebtedness reaches the lowest point in nominal terms and as a share of the population by the time households reach the age of 64 when relatively higher incomes are used to pay off debt and build up savings. After the age of 65 net assets fall when people are spending down savings rather than incurring further debt.

The shift from short-term consumer debt towards long-term mortgage debt also extended the average duration of loans (Sutherland et al., 2012). Extreme cases were Portugal and Finland where mortgage maturities could extend to 50 and 60 years, respectively (Schich and Jung-Hung, 2007). From a life course perspective this underscores that debt levels not only increased, but that debt extends to all life stages. Girouard and colleagues (2006) also find that debt levels increase with income. Although low income households are therefore the least likely to have debt, time-series analysis (for nations where data are available) showed indebted households among this group increased the most since the 1980s, reflecting the easing of credit constraints for lower income households.

The systems put in place to aid the flow of finance across global markets, however, have not always been affective in catering for the needs of individuals. Banking systems often favour wealthier customers (Claessens, 2005), with the position of poorer households remaining marginal and weak (Stenning et al., 2010). The expansion of credit down the income scale was considered a risker practice, reflected in the rise of credit scoring and identification ‘at a distance of good and bad risk’ individuals (Leyshon and Thrift, 1999; p.441). Targeting and identifying this risk resulted in higher costs and interests rates charged to low-income households (Claessens, 2005; Kempson and Paxton, 2002). Across developed and developing nations low-income households faced many institutional and cultural barriers to accessing financial services generally (Claessens, 2005; Stenning et al., 2010), leading to the development of new high cost, sub-prime lending markets in many nations

(Consumer Focus, 2011). There also developed a black market for illegal and predatory lending practices which exploited the vulnerable situation that some lower income and indebted households were facing (Carr and Kolluri, 2001). Although interest rates may not have been unduly high, the abusive and threatening practices were not only 'financially destroying' individuals, but the use of violence and intimidation put psychological pressure on people, leaving households and communities scared and a 'veil of silence allowed such activities to go on undetected' (Carr and Kolluri, 2001, p.4; CSJ, 2013, p.29). As a consequence such debt is absent from national records meaning the true level of problem debt is under-recorded.[4]

Widening access to credit meant that most people held some sort of 'normal debt', such as a mortgage, credit card or an overdraft facility on their bank account (CSJ, 2013). The rise in household debt, particularly among poorer households, however, gave rise to concerns that acceptable 'good' credit could easily become 'bad' debt, where households were moving away from credit as a deliberate vehicle to smooth incomes, to over-indebtedness where it became difficult to meet repayment terms. Survey data from 2009 for example showed that in some European Member States half of respondents felt they were at risk of becoming over-indebted (Hungary (53 percent), Latvia (51 percent) and Spain (49 percent)). Such fears were matched by a reported increase in the use of debt services across several different countries (Eurofound, 2010). Overall, individual over-indebtedness continued to increase throughout the early decades of the 2000s in most affluent societies (Heuer, 2014).

[main heading] Individual and institutional risk factors of indebtedness

Over-indebtedness was for many years more likely to be associated with long-term unemployment (Eurofound, 2010). Other 'at risk' groups included people living in urban areas, families with children or single parents, young adults, benefit recipients, people with a long-term illness or disability and those living in privately rented accommodation (see Eurofound, 2010). These groups generally accounting for those on lower-incomes or the working poor. The accumulation of debt mainly arose from missed payments on utility bills (water and energy) or rent (EQLS, 2013). Over-indebtedness was also associated with lack of financial management skills, with people running up large debts overtime, without fully realising the consequences. Following the GFC the characteristics of over-indebtedness changed, incorporating those recently unemployed, particularly the lower-middle class who had been laid off from well-paid jobs but still had large mortgage or other debts (Eurofound, 2010; EQLS, 2013).

Marron (2012) notes that another potential site of risk lay within the credit market itself. Although credit markets were opened up, and costs reduced, the system became complex, with increasingly specialised products, confusing terminology and an array of interest rates. This made it difficult for consumers to make the appropriate calculations and limited their ability to choose the appropriate financial product. Demand for debt was created by 'excited creditors' who pushed potential debtors to take on more credit (see Peebles, 2010, p.227). Consumers were subject to aggressive marketing of cheap credit and inducements to borrow more, such as zero percent interest on balance transfers or automatic increase of credit limits, encouraging consumers to overspend. This deliberate mis-selling of products to protect or accumulate assets resulted in several financial institutions being fined and further regulated (see Marron, 2012; Searle and Köppe, 2014).

Seen in this way indebtedness was not so much a problem of a lack of individual agency and self-governance of needy debtors, but of institutional risk factors making consumers 'vulnerable and victims of market inequalities' (Marron, 2012, p.414; Peebles, 2010).

The consequences of being in debt extend beyond financial difficulties and was associated with many negative aspects including: financial exclusion; stigma or severe stress (CSJ, 2013; Finch et al., 2007; Jenkins et al., 2008; Valins, 2004). The relationships however remain complex and cause and effect can be difficult to determine (Brown et al., 2005); does problem debt lead to financial exclusion, or financial exclusion lead to problem debt?

A parallel concern about increasing consumer credit (and household debt) was the implications for psychological well-being (Worthington, 2005). Within this field of research, however, mortgage debt, compared to other forms of consumer debt, was seen as generally unproblematic with little or no relationship with mental illness (Brown et al., 2005; Jenkins et al., 2008). However, research has shown there are detrimental psychological effects associated with unsustainable housing commitments and fear of repossession (Ford et al., 1995; Nettleton, 1998; Nettleton and Burrows, 2000; Taylor et al, 2007). Although this literature recognised the importance of measuring households total wealth resources (income, assets and debt) – the negative implications of being in debt still tended to exclude mortgages. This was because mortgages fell into the 'good credit' definition. They enabled the smoothing of the consumption of housing services across the life course (Weinberg, 2006), and represented an investment rather than 'consumer debt' (Park and DeVaney, 2007). This is despite the diversity of consumption wants and needs that mortgages could and were increasingly facilitating from the latter part of the twentieth century (Searle et al., 2009; Smith and Searle, 2008).

[main heading] Housing debt

It is now well established that borrowing for homeownership accounts for a major proportion of the growth in household and individual debt (Worthington, 2005). Rising mortgage debt was therefore linked to the rise in owner-occupation however, it was also a reflection of how much easier it had become to withdraw housing wealth (Hurst and Stafford, 2004; Smith and Searle, 2008). Housing debt, namely mortgages, therefore provides an interesting case study where it has become simultaneously a source of credit and debt across the life course.

The deregulation of the financial services was part of an ideological shift towards individual responsibility and away from state support within a neo-liberal framework, initiated in the USA and UK towards the end of the 1970s (Harvey, 2005; Soederberg, 2014). This line of policy thinking rippled out across many nations, who sought in the first instance to reduce or rid their state's responsibility for the provision of housing. A variety of policy initiatives were implemented which saw public housing being sold off across the USA as well as in many European and Asian nations, leading to a rise in the level of home ownership (Jones and Murie, 2006; Ronald, 2008).

In the decades that followed, household net wealth rose in the main due to the increase in house prices, however, mortgage debt was also on the rise in some nations. Higher economic development, urbanisation and well developed financial markets contributed to higher mortgage debt and penetration among the population (Badev et al., 2014). By 2011 most developing countries had hardly any mortgage markets, while most OECD countries had the highest outstanding mortgage debt relative to GDP; among 118 countries between 2006 and 2010 this ranged from 1 percent in Rwanda to 109 percent in Denmark. A similar pattern emerges when the percentage of the adult population with a mortgage, is compared; less than 1 percent in most African countries rising to 60 percent in Sweden (Figure 4). By 2012 mortgage debt accounted for more than 80 per cent of total household debt in 26 OECD countries, compared to on average only five per cent being due to credit cards (OECD, 2014).

[Figure 4 here]

The credit system through which much of this mortgage debt was supplied grew into a complex and opaque securitised product on a global scale, and was a key contributing factor to the GFC of 2008 (Kiff and Mills, 2007; and see Smith and Searle, 2010). Nonetheless not all nations felt the negative impact to the same extent and the 2008 crisis and subsequent recession highlighted national variations in the resilience of regions (Martin and Sunley, 2015), mortgage systems, and mortgaged households. Nonperforming loans (loans that are 90 days or more in arrears), as a proportion of total gross loans, soared in the aftermath of the crisis in European nations – notably in Greece reaching 34 percent in 2014 from 5 percent in 2005. However, not all countries in Europe were similarly affected; in Sweden (with the highest penetration of mortgage loans) nonperforming loans remained below 1 percent between 2005-2014. Some individual nations in Central and South Asia (Kazakhstan rising from 2 percent in 2006 to 31 percent in 2013) and Sub-Sahara Africa (Nigeria peaking at 37 percent in 2009) were also more exposed to the collapse in the banking and finance system than other nations in these regions. East Asia and Latin America were hardly affected by the turmoil on the credit markets in North America and Western Europe (Figure 5).

[Figure 5 here]

Differences in mortgage products, policy and taxation, and local economies contribute to this geographical variation in mortgage resilience. For example, countries with high proportions of flexible interest mortgages (exceeding 90 per cent in Spain, Portugal and Finland) were immediately exposed to the wider financial market risks, unlike those in Germany or Belgium where variable interest mortgages accounted for 10 percent of the market. Dealing with the problems of household indebtedness therefore became an issue of monetary policy with interest rates lowered sharply close to zero in most advanced economies (turning negative for some government bonds) and tighter regulation of the credit industry (The Economist, 2013).

Further evidence shows the importance of local and regional geographies in concentrations of problem debt and repossessions (see UK: FIC, 2012; Germany: SCHUFA, 2014). For example, in the United States mortgage delinquency rates and foreclosures generally increase the further east and south that households are located. Mortgage delinquency levels (90 days or more in arrears) at the end of 2007 were under 1.7 percent in Alaska (in the North West), whereas they generally exceeded 1.8 percent in Florida (South East) (FRS, 2008) (Figure 6). Similarly, by 2015 the proportion of foreclosures ranged from 0.3 percent (Alaska) to 5.2 percent (New Jersey) (Corelogic, 2015) (Figure 7). Among UK regions the proportion of households having mortgage payment problems ranged from around 15 percent in the South West to 32 percent in Northern Ireland; whilst repossessions ranged from less than 1 percent in the South East and South West to 2 percent in the North East (FIC, 2012) (Figure 8).

[Figure 6 here]
[Figure 7 here]
[Figure 8 here]

These regional variations arise from a complex mix of socio-economic factors affecting local housing and labour markets, cost of living and inequalities arising from financial policies and initiatives which tend to benefit those who are better off (SCHUFA, 2014; Searle and Köppe, 2014). Mortgage tax relief contributed to the rise in prices, and subsequent rise in debt, while also being more beneficial to higher rather than lower income earners (Andrews, 2010). Low cost home ownership initiatives also tended to benefit better off households (see Searle and Köppe, 2014). Regional studies also suggest that socio-spatial factors influence mortgage choices. For instance, UK evidence shows that lower incomes and higher unemployment rates increase the likelihood to opt for a variable mortgage rate, exposing regions with these characteristics to interest rate fluctuations (Koblyakova et al., 2013).

The existence of regional discrepancies however is a much more complex process and demonstrates how the consequences of major economic shocks, such as recession, play out within local economies, reflecting path dependencies of population growth, economic development, housing and financial markets among other components (Martin and Sunley, 2014). Understanding these local geographies of debt therefore require in-depth analysis of the inter-dependencies of the multi-scalar components that make up local financial systems including the reactions and needs of individuals and local economic agents, local or national political interventions and other external linkages at the global scale (Martin and Sunley, 2014), but are beyond the scope of this paper.

[main heading] Geo-Politics of debt

Exploring the geography of debt at the macro, meso and micro levels demonstrates that 'while the deregulation of *who* could offer housing finance expanded on a global scale the regulatory framework as to *how* this was provided was slower to respond' (Searle, 2012, 2, original emphasis). The circumstances surrounding the expansion of credit and the subsequent rise in over-indebtedness raises questions about the power imbalance, in particular who should be responsible for the financial difficulties households were facing, given the challenging economic circumstances were a direct consequence of the actions of the banks and financial institutions who would seek repossession, or foreclosure, in the event of non-payment of mortgage debt (Searle, 2012).

The fallout of the economic crisis gave rise to a turn to the geo-politics of debt, and the power relations around creditors and debtors. (Montgomerie et al., 2014; Soederberg, 2013a, 2014). The key argument is that existing power imbalances in the 1970s and a neoliberal reform agenda spread the 'debt economy' (Lazzarato, 2012) across the world. Liberalisation of credit regulation fuelled the spread of credit towards households, alongside protecting banks from arrears and defaults. This development shifted all the risks associated with debt on to individuals and households, while increasing profits of financial intermediaries such as banks and other investors (Soederberg, 2013b). With over-indebtedness, personal bankruptcies and defaults on payments increased, leading to increased costs for lenders, financial intermediaries (banks) and debtors (court fees) (BBC, 2014; SJPG, 2007). Despite this increase in defaults, however, revenue and profits of lenders still increased through widening access to credit (Soederberg, 2013b).

This affected both developed and developing nations. While consumer and mortgage debt spread mainly in developed and affluent societies (World Bank, 2010), developing nations had already become exposed to sovereign debt prior the GFC (Cline, 1995; Millet and Toussaint, 2004). These power imbalances had hardly been questioned in public discourse (Graeber, 2011), although there is some tentative evidence that grassroots movements and civil society began to fill the vacant political and policy void through small scale initiatives at the household and community-level (for example in the UK see Montgomerie et al., 2014)

[main heading] Policy responses and debt clearance

National policy responses to the rise in individual debt and over-indebtedness have ranged from soft policies such as raising consumer awareness and financial literacy to various personal bankruptcy legislations. Key responses can be broadly grouped into six approaches:

- First, education initiatives to increase financial literacy and consumer awareness of the risks of debt. Though cheap and popular among politicians, showed only limited success in overcoming over-indebtedness, in part due to methodological problems in measuring educational effects (Atkinson 2008; Collins and O'Rourke 2010).
- Second, debt advice and support was provided through various channels including public authorities, charities, legal services and financial institutions. Debt support contributed to effective reduction in debt, and also increased incomes to repay debt more effectively, mainly through increasing welfare benefit claims (Hartfree and Collard, 2014).
- Third, insurances can help prevent the need to acquire credit or secure debt against social risks. Public and private insurances that maintain an income after economic and social shocks (such as unemployment/health/life insurance) enable debtors to continue their loan repayments, whilst loans could be secured with payment protection insurances (PPI) although these were not always effective particularly amongst those with the highest need (Ford and Quilgars, 2001). The mis-selling of mortgage related insurances to those who were ineligible to make an insurance claim if in need, led to one of the biggest fines for the insurance sector in the UK and £3bn being repaid to costumers (FSA, 2009, Robertson, 2010).
- Fourth, policy-makers could implement stricter credit regulation and demand more responsible lending. Policy options included stricter credit checks, lower mortgage/value-ratios or interest ceilings (Priemus and Whitehead, 2014). However, in European tighter regulation created greater opportunities for illegal credit markets with the associated problems discussed above (Iff/ZEW, 2010). Consumer protection (in respect of financial products and services) was among the 'shared

pillars of financial adjustments' embraced by a coordinated approach to financial reform by the European Union and the US (Masera, 2011, p. 333). The US took the lead in detailing independent, macro-prudential oversight across all aspects of finance and economic policies, although mortgages remained a notable exception (ibid.).

- Fifth, to break the vicious cycle of high-interest payday loans and credit card bills, affordable small sum loans were suggested for low income households. While such schemes had only been piloted in some countries (for example DWP growth fund - UK, Small-Dollar Loan Pilot Program - US), they had been in place for several years in others (the Australian small loans schemes (NILS/StepUP) available for more than 30 years; the UK's Discretionary Social Fund operated between 1988-2013).
- Sixth, often as a last resort, over-indebted borrowers could use personal bankruptcy solutions to break the cycle of debt. Heuer (2014) revealed four clusters of personal insolvency policies in 15 advanced economies. A 'market model' (US and Canada) enabled those who were over-indebted a fresh start after a relatively short waiting period to clear commercial debt. The 'restrictions model' (UK, Australia, NZ) allowed a relatively quick discharge of debt (1-3 years), but imposed more economic and behavioural restrictions on debtors during and after bankruptcy. The 'liability model' (Germany and Austria) with long waiting periods (6-7 years), strict obligations on the debtors and strong rights for the creditors until debt clearance. Finally, the 'mercy model' (France, Belgium and Scandinavian countries (Denmark, Finland, Norway and Sweden)) where officials had significant discretion in when and under which circumstances debts were cleared, the main criteria being deservingness.

As highlighted with the personal bankruptcy clusters, credit policies strongly complemented other existing welfare support schemes and cannot be understood in isolation. At the time of writing, little research had been conducted to understand competing institutional incentives for the take-up of credit, safety-nets and behavioural responses in a comprehensive policy framework. Yet, a recent World Bank report highlighted issues of personal bankruptcy and its wider social and political implications, serving as a white paper that will shape future global policy debates on this topic (Insolvency and Creditor/Debtor Regimes Task Force, 2014).

[main heading] The turn to assets

As noted above household indebtedness is inextricably linked with financial exclusion. As everyday lives became financialized (Langley, 2008), there was a parallel concern that those on low incomes would become increasingly financially excluded. A key theory developed to address this was asset-based welfare (ABW) (Sherraden, 1991). The premise of ABW is that investment in initial assets (for example savings, pensions, business or education) will provide returns (through interest payments or better earnings opportunities) and a base from which further asset accumulation can flow (Sherraden, 1991, 2002).

Savings represent one effective means of buffering against unexpected expense and preventing debt acquisition, particularly among low income households. Borrowing, or being in debt, has been identified as a key barrier to regular saving among low income households, although it was not necessarily borrowing that was the problem but as noted above unsecured credit (see Kempson and Paxton, 2002). Having savings prevents the need for adopting risk management strategies (Harrison, 2013; Lusardi et al., 2011). It also prevents the need for taking out unsecured debt, resorting to alternative expensive credit solutions which are more likely to lead to a spiral into further debt and long-term financial problems (Hartfree and Collard, 2014) or borrow from family or friends which puts a strain on family relationships (Lusardi et al., 2011). So whilst household debt was rising, a parallel concern was that people were saving less. Across the OECD net saving rates on average declined from the 1990s, although huge country differences remained (OECD, 2014). Even Japan who had been known for a relatively high household saving rate for decades turned negative in 2009, as households were on average dissaving and acquiring debt.

Although initially positioned as being complementary to existing welfare provision, access to personal savings, assets and wealth increasingly became part of national and international government policy, especially in Anglo-Saxon and East Asian welfare states where in some instances it replaced traditional welfare schemes. Personal saving embodied the resilience, reliability and integrity of individuals and households, although evidence for most claims is weak. National savings schemes were developed but evidence shows they disproportionately benefitted middle income households rather than the poorest in society (Searle and Köppe, 2014). However, access to alternative assets (notably housing) led the financial inclusion into credit, but also ultimately into debt. So although household net wealth was increasing as noted earlier, much of this wealth was underpinned by a growth in debt among those already financially included (Girouard et al., 2006). *Asset*-based welfare was turning into risky *debt-financed* welfare (Searle and Köppe, 2014).

[sub-heading] Housing wealth

As everyone needs a place to live, arguably housing is a natural asset to hold. The implementation of a range of policies would seem to support this view, including discount schemes for home purchase among sitting tenants of social housing, mortgage tax relief or house deposit saving schemes which have been implemented in many countries (Searle and Köppe, 2014).

The relaxing of credit constraints on mortgage finance not only facilitated increased access to funds to enable home purchase, but also opened up a market for new forms of credit (and debt) through mortgage equity borrowing. The practice of equity borrowing reached unprecedented levels in some countries, for example average quarterly withdrawals of $80bn in the US in 2006 (Searle, 2011), and was common in Canada, UK, Australia and New Zealand (Hurst and Stafford, 2004; and see Smith and Searle, 2010).

National studies show that home owners were using the wealth reserves in their home to fund a range of consumption wants and welfare needs (Smith 2010; Wood et al., 2013) boost retirement income or pay off other debts (Overton, 2010; Smith, 2005; Smith, 2010). The geography of this form of credit and debt is also evident. In some nations home owners were more reluctant to tap into housing wealth, preferring to save any equity for later life or pass on as an inheritance (Toussaint and Elsinga, 2009).

The nature of mortgage debt and extended borrowing was generally seen as a relatively low risk form of credit. Because mortgage debt is secured against a physical asset, it reduces the risk of loss for the lender if the borrower becomes unable to repay the loan (Weinberg, 2006). Such assumptions were brought into question during 2005 and 2006 in the US when those who borrowed via the sub-prime mortgage market and existing home owners who had over-stretched themselves through borrowing equity from their homes, defaulted on their loans. House values started to fall leading to the GFC which followed (Mian and Sufi, 2014).

Research from the UK also demonstrated the fine line between good credit and bad debt. Home owners who struggled to manage household budgets and meet housing payments, were twice as likely to access further credit through withdrawing equity (Searle, 2011). However, this placed them at greater risk of falling behind with mortgage payments and of being repossessed (Searle, 2012). Analysis of mortgage rescue applicants also revealed that half of applicants in 2009/10 had additional charges, other than their initial mortgage, secured against their home (Wilcox et al., 2010). The changing role of housing wealth and home owners willingness to engage in equity borrowing across several nations, served to challenge the previously held assumption that mortgage debt could be considered a safe and unproblematic form of credit, instead drawing attention to its potential to become a burden and source of problematic debt.

[main-heading] Conclusions

Throughout the twentieth century debt became an acceptable part of household budget management. It provided the means to smooth gaps in income, savings and expenditure across the life course. More importantly from a macro-economic perspective, debt enabled people to sustain their consumption behaviour, thus fuelling economic growth. The relaxing of constraints on the system to supply credit was seen as a legitimate contribution to national progress, resulting in debt finance spreading spatially across the globe.

Although consumer credit under these conditions was deemed to be good debt, the shift towards an individualised asset-based welfare approach meant that the risks, previously born by the nation state or other broader collectives, were increasingly being taken on by the individual. Saving and investing remained a viable strategy for accumulating wealth and assets, however, most households needed to take out debt in order to finance major life-time investments. So even during a period when net wealth was on the increase, fuelled by rising house prices and a booming economy, concerns were being raised about historical high levels of household debt, mortgage debt in particular, and the extent to which debt obligations were sustainable.

Such concerns were realised when the global financial crisis exposed the extent to which individual and national welfare provision was underpinned by insecure forms of debt finance. The problem of indebtedness no longer only affected groups traditionally deemed ‘at risk’, but spread to include households across the socio-economic spectrum, and indeed to entire nation states. Paradoxically, the system implemented to enhance welfare and protect against social risks through greater access to financial assets and wealth, was not only at the heart of the greatest recession since the Depression of the 1930s, but failed to give the security it was set up to provide. When the mortgage finance system collapsed, house values – the largest asset holding for most households, and increasingly a source of income through equity borrowing – fell drastically. Whilst lowering interest rates to historic lows, significantly reduced the income returns on individual savings and investments.

The policy response to the GFC also reinforced historical power relations embedded in the supply of credit and debt obligations. Creditors were protected first through implementation of rescue packages and plans, whilst regulation of the financial sector to protect vulnerable debtors did not come until later. On the one hand this reinforces the moral hierarchy of credit as power and debt as weakness; the consequences of the financial collapse were borne by the debtors rather than the creditors (Mian and Sufi, 2014; Soederberg, 2014). On the other hand it challenges this notion where indebtedness had arisen in response to a political and economic push towards a credit economy. The limited alternatives for appropriate and affordable credit, the need to accumulate expensive assets to provide for welfare; and the lack of public safety nets, left individuals vulnerable to the social and economic costs of the collapse in the financial system. The inability of individuals to accumulate income and service debt payments was arguably less about poor self-governance or weakness and more about institutional failings.

Exposing the geographic differences in credit finance and regulation therefore provides an important contribution to understanding the global rise in household debt and subsequent financial recession. Notwithstanding the complexity of interdependencies at multi-scalar levels, this paper demonstrates how global connections provide the channel through which credit (and debt) flows; regional differences demonstrate welfare ideologies and judicial responses, whilst local divisions draw out the distinct geographies of financial booms, and socio-economic factors which feed into the resilience (or not) of people, regions and nations in the face of economic busts.

Notes

1. This chapter has focussed mainly on formal credit and debt, it does not address the informal finance mechanisms that operate in many sectors in society, or indeed are still prevalent in many nations (Stenning et al., 2010).
2. Bequests are not included in the calculations. Furthermore, the national accounts calculations assume a steady state where saving and dissaving should balance out in a society.
3. Further in-depth national accounts data support these observed trends. It is also worth noting that private credit bureaus (also known as consumer reporting agencies in the US, or credit reference agencies in the UK) can provide a wealth of regional level data for the countries they are operating in, based on their client databases (for example for Germany see Creditreform 2014, SCHUFA 2014; for the US see TransUnion's *Credit Report Studies* http://www.transunion.com/corporate/about-transunion/credit-studies.page, Experian's *White Papers http://www.experian.com/consumer-information/white-papers.html*; for the UK CallCredit's *Define* Consumer Database http://www.callcredit.co.uk/products-and-services/consumer-marketing-data/define). However, while some research reports are available to the public, most databases are only accessible through a paywall for marketing research and not easily available for academic research.
4. The introduction of real time databases in some states in the United States may provide the way forward for better monitoring and potential regulation of the sector (CfRC, 2011).

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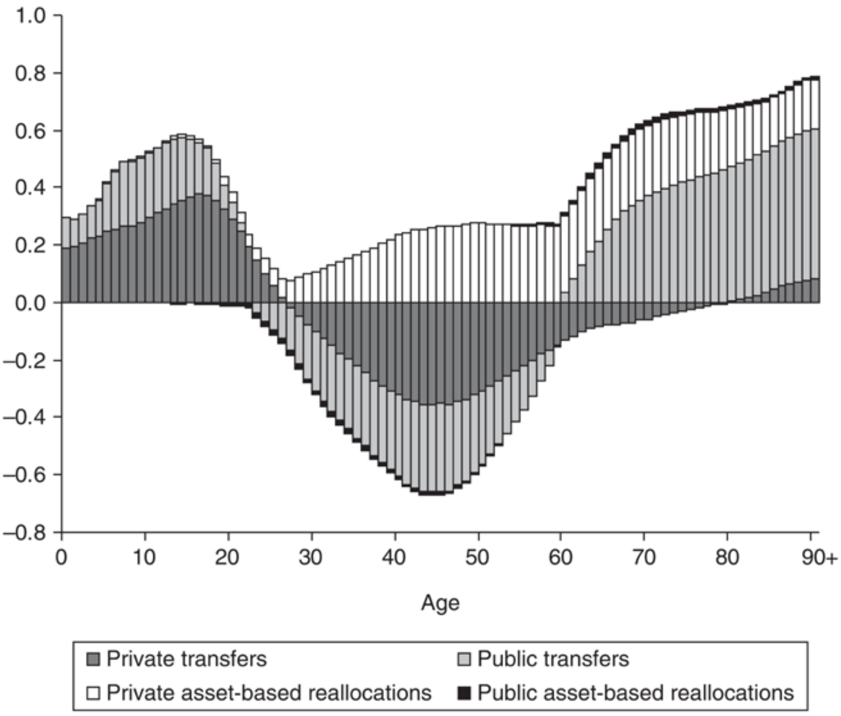

Figure 1: Per capita age reallocations: average of 17 economies around 2000
Source: Lee and Mason, 2011, p. 58, fig. 3.2

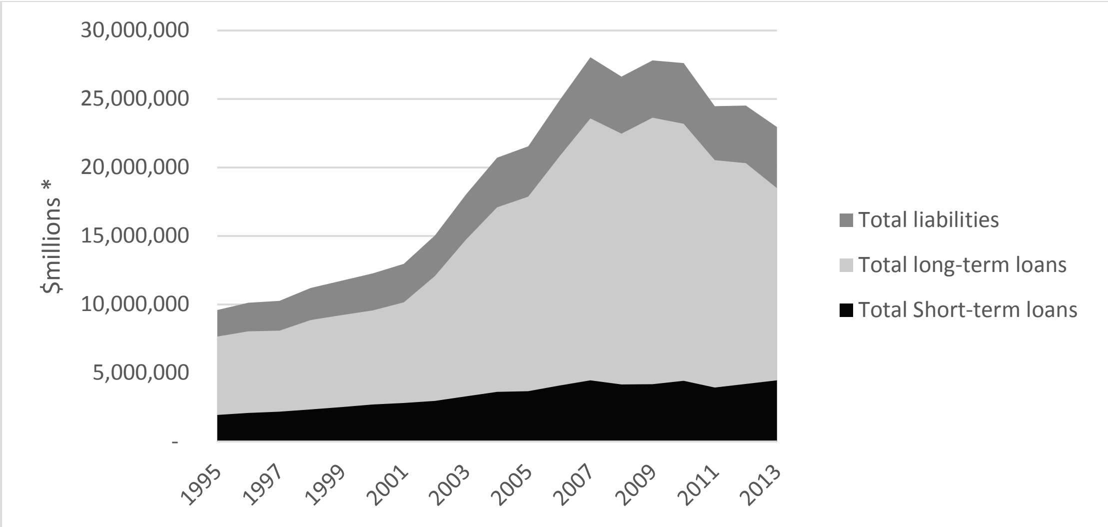

Figure 2: Total household financial liabilities: 22 OECD nations^ 1995-2013
Source: OECD Economic Outlook: Households' financial and non-financial assets and liabilities

^Countries included where information is available across all three measures: Australia, Austria, Belgium Canada, Chile, Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, Netherlands, New Zealand, Norway, Portugal, Slovak Republic, Spain, Sweden, Turkey, UK, US
*Current US-Dollar prices, current exchange rate

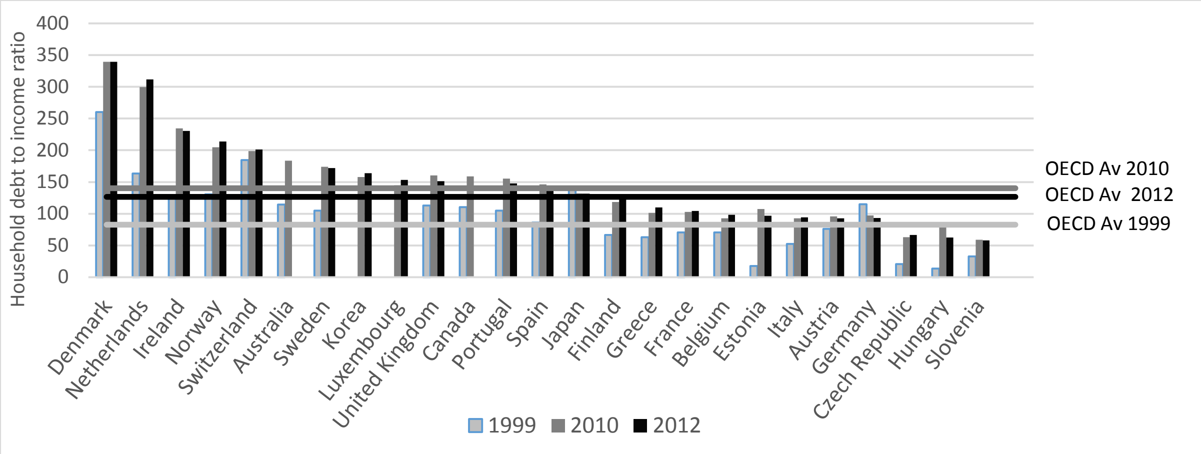

Figure 3: Household debt to income ratio in 28 OECD countries: 1999, 2010 and 2012*
Source: OECD, 2014, Table 20.1 Household debt
*Austria 2000+2008; Australia 1999, 2010; Canada 1999, 2010; Denmark 2003, 2010, 2011; Greece 2005, 2010, 2011; Ireland 2002, 2010, 2012; Korea and Luxembourg 2010, 2012; Slovenia 2001, 2010, 2012; Spain 2000, 2010, 2012; Switzerland 1999, 2010, 2011

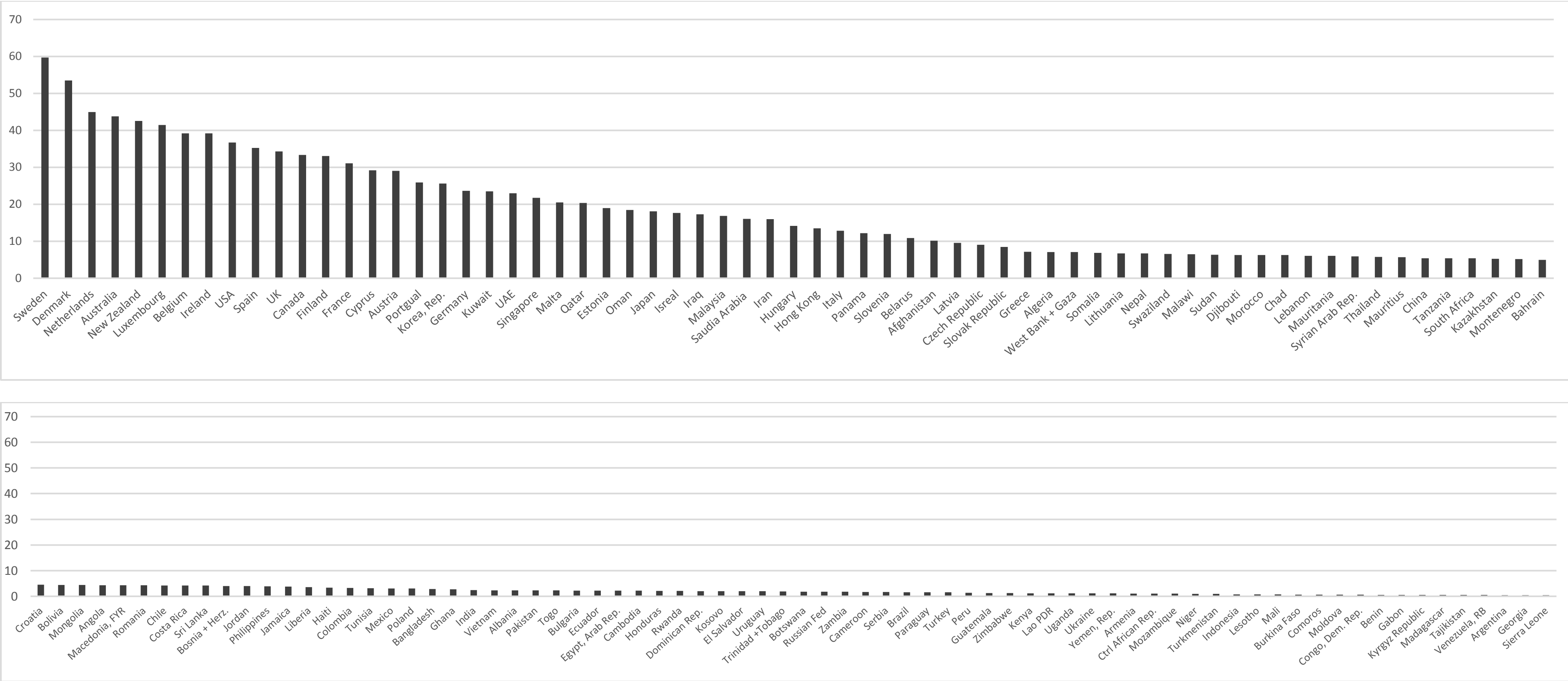

Figure 4: Percentage of adult population with an outstanding loan to purchase a home 2011

Data sourced from: Badev et al, 2014

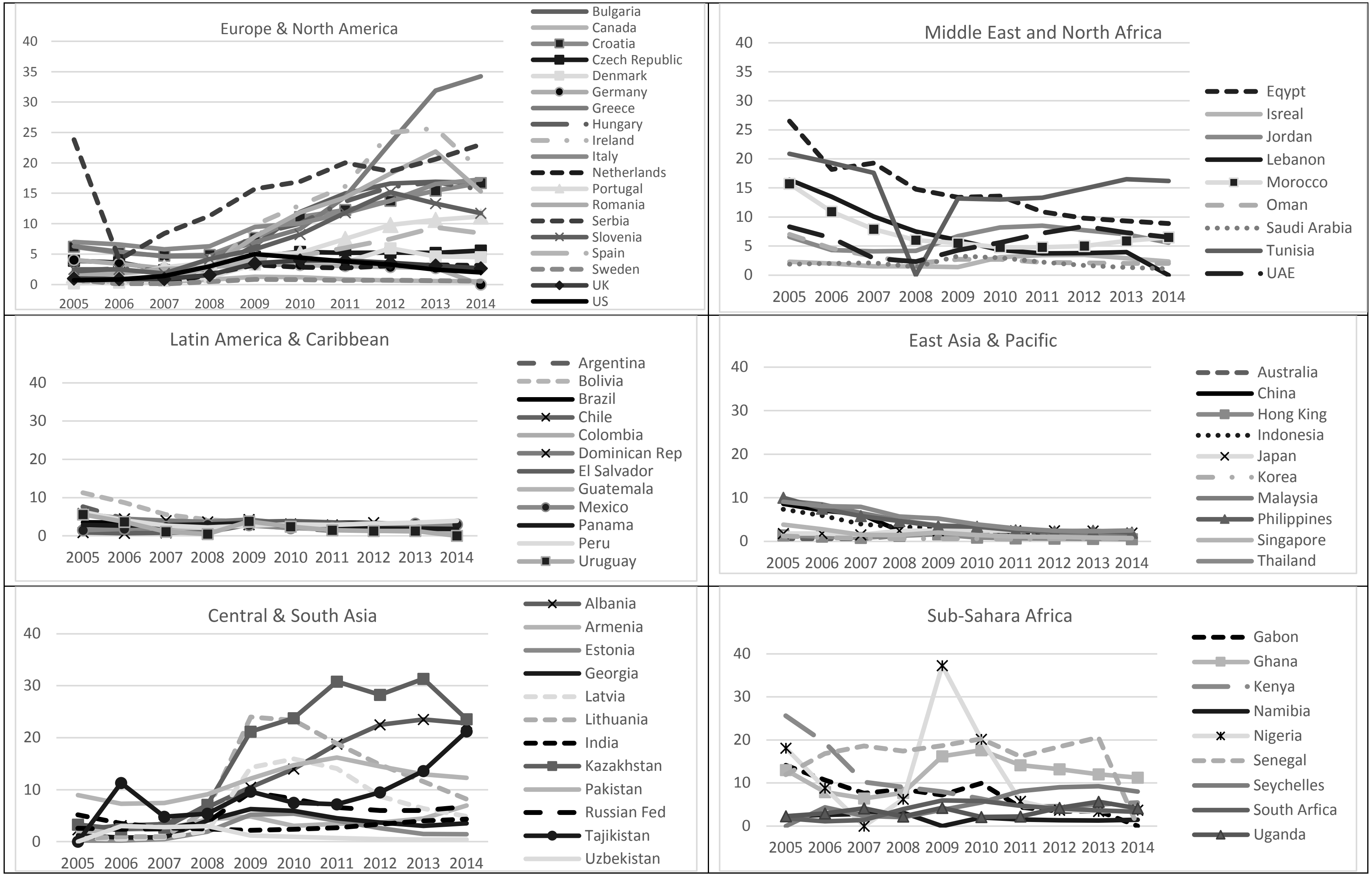

Figure 5: Bank nonperforming loans to total gross loans (%): 2006-2014

Source: The World Bank, series code FB.AST.NPER.ZS

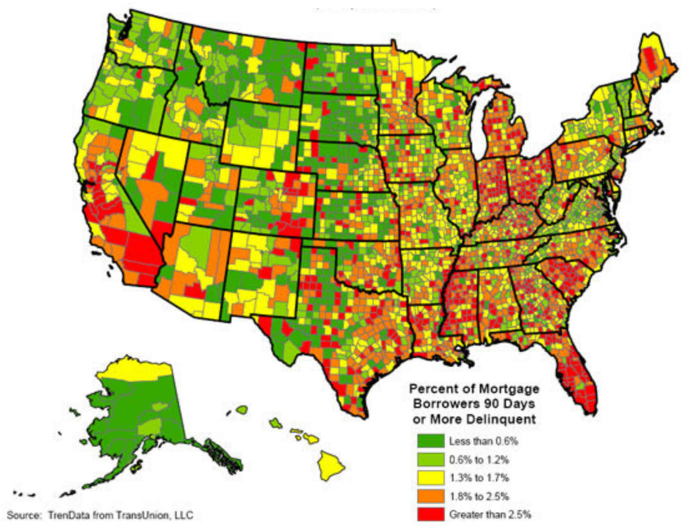

Figure 6: Mortgage delinquency rates: US 2007

Source: FRS, 2008

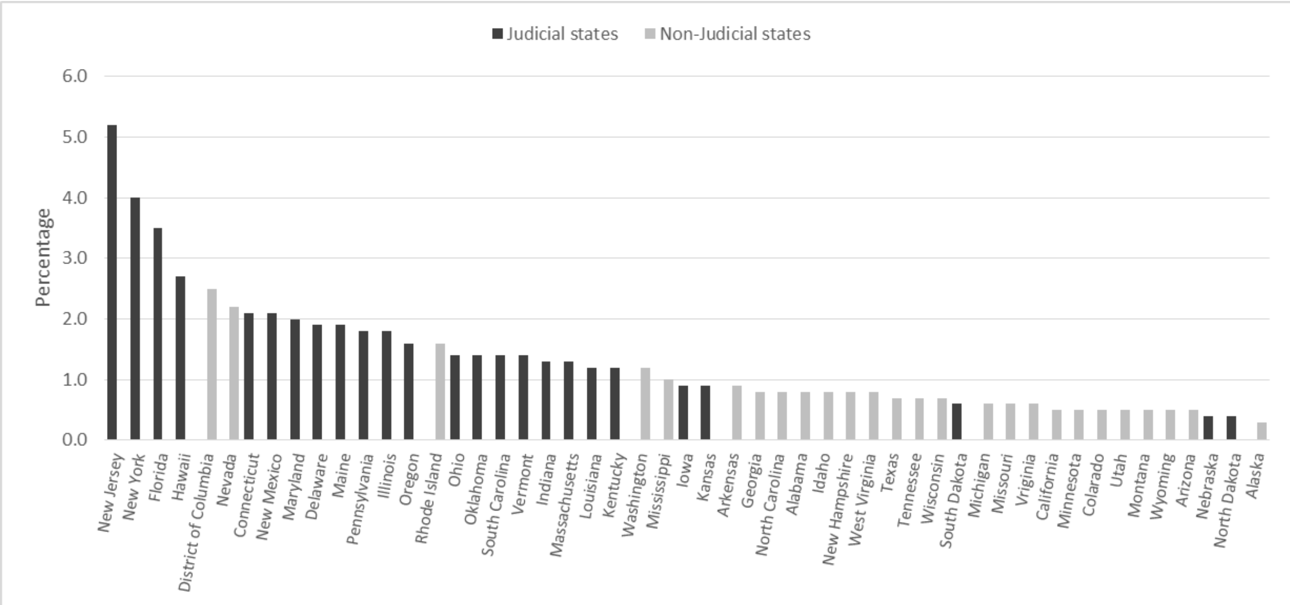

Figure 7: Foreclosures as a percentage of all homes with a mortgage, USA 2015

Source: Corelogic, 2015

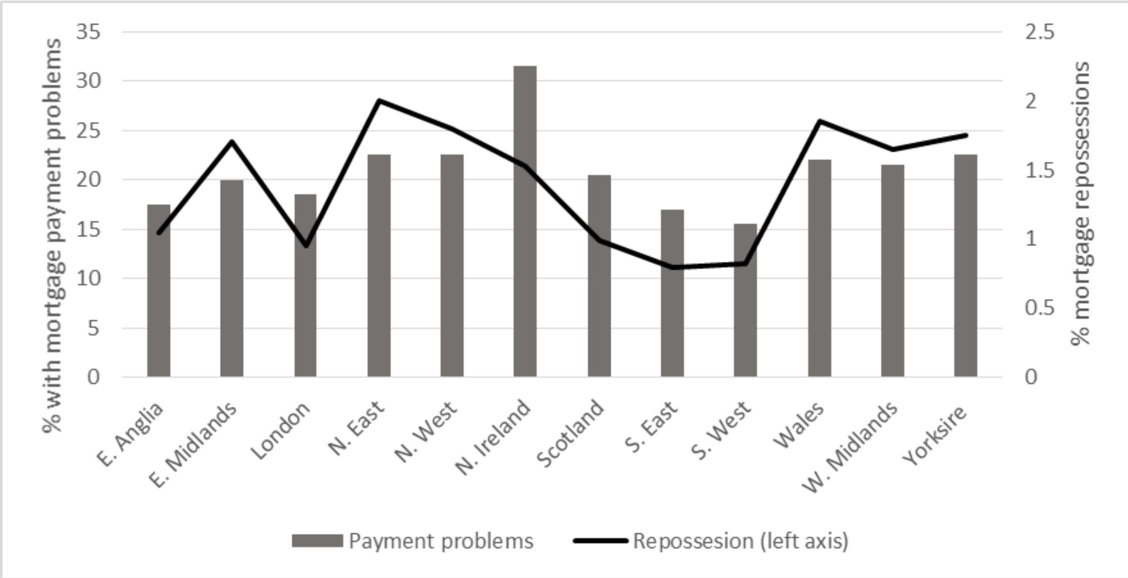

Figure 8: Problems with mortgage payments and repossessions: UK Regions

Source: FIC (2012), Figures 3 and 4.