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The Legacy of Economic Recession in Terms of Over-Indebtedness: A Framework and Review of the Evidence

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With the expansion of credit, low interest rates and overly optimistic expectations about future economic and housing price developments, mortgage lending soared in most OECD countries in the run-up to the 2008 global economic crisis. The crisis revealed the hidden epidemic of over-indebtedness, which continues to overshadow the lives of millions in rich countries. In the wake of the global economic crisis, the household debt crisis led to worsening economic conditions and put pressure on government finances, which caused further income shocks in the form of austerity measures such as social welfare cuts and higher taxes. This article is based on a scoping review aimed at summarising and reflecting on the available literature. It analyses the effects of over-indebtedness on individuals and societies across six OECD countries: Finland, Germany, the Netherlands, Norway, the UK and the US.

Keywords: Over-indebtedness, economic crisis, socio-economic position, bankruptcy.

Introduction

The global economic crisis revealed a hidden epidemic of over-indebtedness, which continues to overshadow the lives of millions in rich countries. In analysing the consequences of this hidden epidemic, this article has three key aims. First, from the perspective of household indebtedness, the article starts with a description of the varying routes in and out of the global financial crisis taken by different countries. Second, it proposes an analytical framework for examining both the individual and social consequences of the over-indebtedness epidemic after the global economic crisis. Third, using the proposed framework, the article illustrates the varying consequences of over-indebtedness in two Anglo-American countries (the US and the UK), together with two continental European countries (Germany and the Netherlands) and two Nordic countries (Finland and Norway). To date, there have been no previous interdisciplinary frameworks for simultaneously analysing both the individual and societal consequences of over-indebtedness. Over-indebtedness is generally analysed through the lens of economics, sociology or social epidemiology, without attempting to combine these perspectives. The proposed framework will duly help to further our understanding of the magnitude of the debt problems caused by economic crises.

The global economic crisis and household over-indebtedness

There remains little consensus on the definition of over-indebtedness, and consequently on comparative indicators for it. Generally speaking, household over-indebtedness can be defined as a situation in which a household is permanently unable to repay a debt. The risk of payment difficulties may be measured with the income-debt ratio. A more sophisticated definition takes into account the resources available for managing a debt. By this definition, a household (assuming that resources are pooled within the household) is over-indebted if the debt cannot be sustained in relation to current earnings and any additional resources raised from the sale (under fair conditions) of real or financial assets.

With deregulation and overly optimistic expectations about future economic and housing price developments in the run-up to the global economic crisis, mortgage and credit lending soared to record levels in most OECD countries (OECD, 2017). The six countries chosen for this review represent varying narratives with respect to the effects of the global economic crisis on household over-indebtedness. In the US and the UK, mortgage defaults and other debt problems were mostly attributed to excessive risk-taking in mortgage lending, although deteriorating economic conditions also played a role. In the US, a substantial proportion of subprime borrowers were only able to repay as house prices increased, but, when prices stopped rising, defaults and foreclosures skyrocketed. The crisis resulted in the loss of 8 million jobs between 2007 and 2009, with more than 4 million homes lost to foreclosures (Mian and Sufi, 2015). The UK household debt-to-income level increased from 90 per cent in 1987 to 160 per cent in 2007 (Bunn and Rostom, 2015), while the number of mortgage repossessions almost doubled in the UK from 25,900 in 2007 to 47,700 in 2009 (Fondeville *et al*., 2010).

In the Netherlands, as a result of a housing policy favouring homeownership, the mortgage market was characterised by a high ratio of household debt to gross disposable income even before the crisis. Household debt increased in the Netherlands between 2000 and 2007, even more than in the US (Mian and Sufi, 2015: 6). Falling incomes and rising unemployment during the downturn caused deterioration in the housing market in the Netherlands but did not lead to forced sales (Jansen *et al*., 2013). Fittingly for a country where much of the population lives below sea level, about 30 per cent of Dutch homeowners had negative equity as late as 2015.

Unlike in the early 1990s, the global economic crisis did not lead to a banking crisis in Finland on this occasion. Finnish banks had been cautious about issuing mortgages and consumer loans. However, after an initial rebound, the Finnish economy remained stagnant until 2017. Falling incomes and rising unemployment during the downturn caused defaults on mortgages in the country.

Germany and Norway are outliers compared with the countries described above. The household debt volume doubled from 1987 to 1997 in Germany. However, the situation had changed completely by the 2000s. While credit volumes expanded in other countries, bank loans to households declined dramatically. Germany was among the economies hit the hardest by the global economic crisis due to its strong dependence on exports. However, thanks to effective policies to combat unemployment, Germany emerged from the crisis quickly. This success story of rebounding economic growth has been explained as a narrative about the hard-won reward for strict economic management, combined with fiscal conservatism (Mertens, 2017).

Compared with the other countries, Norway was almost completely insulated against the global economic crisis. As a result of tight regulation, Norwegian banks were only slightly affected by the crisis (Poppe *et al*., 2016). Instead, the crisis has fuelled borrowing through falling interest rates and stable economic conditions.

In conclusion, in the context of the global financial crisis, substantial heterogeneity exists between the six countries when it comes to the pre-existing household debt levels, policy response and recovery rates. The account demonstrates that, due to pre-existing vulnerabilities, the countries exhibited different trajectories during the global economic crisis.

Theoretical model of analysis

There are several reasons why household over-indebtedness deserves a dedicated framework. There is no shortage of analysis in the literature on the relationship between a low socio-economic position (SEP) and various social ills, most notably poor health. Poverty is also directly linked to debt since, by definition, poor people have a pervasive need for credit. Despite the fact that both low socio-economic position and poverty are closely intertwined with over-indebtedness, it would be a mistake to equate the three. It has long been recognised that wealth could be a more meaningful and predictive indicator of material well-being than income, especially for older people (Henretta and Campbell, 1978; Sherraden and Gilbert, 1991). Over-indebtedness captures both the income and the wealth dimension. As opposed to income level or poverty status, over-indebtedness is a process where the starting point, as vague as it might be for those living with persistent poverty, is a situation where non-payment is not established. In addition, over-indebtedness has a distinct psycho-social dimension. The debt-related psycho-social dimension concerns stress often accompanied by shame, fear of social stigma, anxiety and various forms of psychological distress (Lenton and Mosley, 2008; CPEC, 2013; Richardson *et al*., 2013; Turunen and Hiilamo, 2014; Clayton *et al*., 2015; Cuesta and Budría, 2015; Keene *et al*., 2015).

We may theoretically identify two interlinked causal pathways connecting over-indebtedness with its individual and social consequences (Table 1) (Hiilamo, 2018). The first pathway is attached to economic constraints caused by over-indebtedness, while the second is connected to the stigma of over-indebtedness. Stigma relates to attitudes and behaviours which attest to the psycho-social dimension of over-indebtedness discussed later in more detail.

The first pathway, the financial dimension of over-indebtedness, concerns the lack of necessary resources. It relates to low socio-economic status and poverty as a result of over-indebtedness, while the second pathway concerns feelings of shame and failure. The social stigma concerning indebtedness and debt problems can be analysed from two perspectives: firstly, as an internalised psychological condition relating to the incidence of over-indebtedness; and, secondly, as related to other people's reactions towards an over-indebted person. The perspectives can also be seen as subjective and objective dimensions: that is, how people perceive themselves as default debtors and how other people treat default debtors.

The concept of a moral stressor is important for the second pathway. A moral stressor occurs when 'one knows the right thing to do, but institutional constraints make it nearly impossible to pursue the right course of action' (Jameton, 1984: 6) and persons are unable

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Table 1 Individual and societal consequences of over-indebtedness by lack of material resources and the stigma of debt

Pathway	Individual consequences	Societal consequences
Low incomes and assets	• Financial exclusion • Welfare dependence • Education • Intergenerational effects	• Economic growth • Financial industry • Housing markets
Debt-related stigma	• Mental and physical health • Employment and human relations • Intergenerational effects	• General trust • Innovation potential • Public expenditure

to fulfil their moral obligations. Default debtors may feel shame, guilt and embarrassment as a result of failing to meet financial commitments. Social stigma as an internalised psychological condition may also perpetuate debt problems due to the fact that it acts as a disincentive to over-indebted consumers seeking relief. The second dimension of social stigma is related to social norms (Cuesta and Budría, 2015), in that other people may discriminate against and ostracise over-indebted individuals for neglecting the repayment norm.

The relationship between debt-related stigma and its consequences can be explained by psychosocial stress and coping mechanisms (coping with stress by smoking, drinking, etc.), while the link between low incomes/assets and their consequences relates to limited resources.

Both pathways of the consequences of over-indebtedness – constrained resources and social stigma – operate simultaneously. When it comes to particular outcomes, we may not disentangle their respective effects. The distinction is, however, useful for both theoretical and analytical purposes. We may envision an over-indebted individual feeling no shame about his or her condition and having no negative reactions in the environment (perhaps nobody else knows about the unpaid debts) but suffering terribly from constrained economic resources. Similarly, we can imagine another individual who has, after default, acquired great financial resources (perhaps a successful start-up company or a lottery win) but still suffers from the stigma of once being over-indebted.

In the following, the framework presented in Table 1 is used in analysing the consequences of over-indebtedness through a thematic scoping literature review (Munn *et al*., 2018). The aim of the review is to identify examples of the consequences of over-indebtedness under the given themes in six countries after the global economic crisis: namely, after 2007. Given the complexity of the studied outcomes, the specific time period, the focus on only six countries, and the shortage of context-specific studies, a scoping review was chosen instead of a systematic literature review. The literature was searched between September 2017 and February 2018 using Google Scholar and Science Direct databases. The key word 'over-indebtedness' as well as country names were used in the search. In addition to peer-reviewed articles, we made use of grey literature such as reports, working papers and official reviews. Initially we reviewed altogether 215 references, from which thirty-nine were used for this study. As inclusion criteria, we used: the above-mentioned consequences of over-indebtedness (Table 1); whether the study included empirical research; geographical location (six countries) and language (published in English, Finnish, German, Norwegian or Swedish).

Literature on the effects of over-indebtedness

Effects of low incomes and assets: individual consequences

Financial exclusion

The status of being over-indebted signifies that the individual is not able to access financial services available to other people with a good credit history. Over-indebtedness implies that individuals are unable to obtain credit even if the person involved is willing to pay a higher level of interest, or that they need to seek credit from unregulated or usurious lenders, sometimes described as 'doorstep lenders' or 'moneylenders' (Hiilamo, 2018). It is difficult for them, for example, to take out a phone or internet subscription, take out an insurance policy, or find a job (CPEC, 2013: 189).

Banking exclusion is another key aspect of financial exclusion. Depending on the national legislation, over-indebted persons may experience the freezing or closure of a current account, or they may lack access to a debit card or to a cheque book. In Germany and the UK, for example, a bad credit history can be used to prevent people from opening a bank account; whereas in Finland, Norway and the Netherlands, it is not possible to do this (CPEC, 2013: 188).

In the US, a Federal Deposit Insurance Corporation (FDIC) survey in 2017 showed that 6.5 per cent of households were 'unbanked', meaning that no one in the household had a chequing or savings account, while an additional 18.7 per cent of households were 'underbanked', meaning that the household had an account at an insured institution but also obtained financial services and products outside of the banking system (FDIC, 2017; for the UK situation, see Rowlingson and McKay, 2017). The main reason for being unbanked given by the respondents was that they did not have enough money to keep in an account.

Welfare dependence

Lack of financial means due to over-indebtedness leads individuals to seek whatever financial assistance is available to them to cover their daily expenses. This includes both public and private sources of social assistance, which is delivered, for example, in cash benefits and benefits in kind. They need assistance not only to cover their daily expenses but also to help pay off overdue debts. If they have lost their primary residence, they may need to rely on rental or social housing. A bad credit history is an obstacle to renting accommodation, which may further increase the need for public housing assistance (Dwyer, 2018).

With very few exceptions, the legislated minimum income schemes offer no help in paying off debts. The same goes for charitable financial help. This means that over-indebted households are likely to be dependent on welfare for a long time. Welfare dependency comes with poor work incentives since extra incomes are, in many cases, deducted from benefits.

Education

Over-indebtedness may weaken an individual's opportunities for human capital investments. This is particularly the case when institutions of higher education charge high tuition fees. In the US, young people face the trade-off between taking on debt to complete college or foregoing college and taking their chances in the labour market without a college degree. A large debt can also prevent graduation: Dwyer *et al*. (2012) showed that educational debt beyond about $10,000 reduces the likelihood of completing college compared to lower levels of debt. Young adults with a low socio-economic status have a higher risk of accruing debt burdens that exceed the national average (Houle, 2014).

Even in countries with free education, payment default entry may prevent a student from getting a loan. A study from Finland showed that debt problems are associated with dropping out of secondary education (Majamaa *et al*., 2017).

Effects of low incomes and assets: societal consequences

Economic growth

Recent research has convincingly demonstrated a negative loop of over-indebtedness and economic recessions (Mian and Sufi, 2015). If households are heavily indebted before a recession, they are extremely vulnerable to negative changes in incomes, asset prices and cost of debt. When a shock occurs (for example, as a result of unemployment or a decrease in housing prices), households cut spending. This will decrease overall demand in the economy. In turn, that will exacerbate unemployment. Worsening economic conditions again exert pressure on government finances, which can lead to further income shocks in the form of austerity measures such as social welfare cuts and higher taxes (CPEC, 2013: 198). This will push more households into over-indebtedness, further increasing the effects of the recession. Such a development will create a negative feedback loop where reduced domestic demand for products and services means less employment and lower incomes.

The theoretical point is that when a shock hits the borrowing capacity of debtors with a high marginal propensity to consume, it forces them to reduce their debt. In turn, this will lead to a decline in aggregate economic activity (Mian and Sufi, 2015). Moreover, the increased uncertainty can encourage precautionary saving, which would further depress consumption.

Empirical research has convincingly demonstrated that high levels of pre-bust household debt to income cause deeper dips in consumption and employment compared to recessions preceded by low levels of pre-bust debt to income (CPEC, 2013; Mian and Sufi, 2015). By way of an example, Mian and Sufi (2015: 43) point out that the bursting of the investor-led tech bubble in the early 2000s did not result in economic contraction, while the bursting of the housing bubble in 2007 caused a deep economic crisis.

Financial industry

The global economic crisis and the subsequent banking crises in Europe witnessed massive credit write-downs, bank insolvencies and the effective nationalisation of some of the major banks. The colossal bailouts ruined the reputation of financial institutions and led to a temporary surge in banking regulation (van der Cruijsen *et al*., 2016). That effect was short-lived, but it may be reflected in the general lack of trust in society and politicians and the ensuing support for populism.

Housing markets

The most dramatic effect of over-indebtedness on housing is seen in the negative externalities associated with foreclosures and fire sales (Mian and Sufi, 2015: 27–8). In the US, more than four million homes were lost to foreclosures (Mian and Sufi, 2015: 2). The number of mortgage repossessions in the UK almost doubled from 25,900 in 2007 to 47,700 in 2009. In 2010, however, the situation stabilised due to the fact that the government and the banks helped borrowers through loan restructuring or by allowing them to postpone repayment (Fondeville *et al*., 2010).

In the run-up to the financial collapse of 2008, the subprime lending industry targeted those low-income households which were still outside the mortgage and homeownership market, specifically Hispanic and African-American communities (Mian and Sufi, 2015). Between 2007 and 2010, average white families lost 11 per cent of their wealth, while the corresponding figure for black families was 31 per cent, and for Hispanic households 44 per cent (Desmond, 2016: 125).

Using data from the US state of Massachusetts, Campbell *et al*. (2011) suggest that a single foreclosure lowers the price of a neighbouring property by about 1 per cent. Interestingly, the effects can be much greater when there is a wave of foreclosures, with estimates of price declines reaching almost 30 per cent. Reduced housing prices send negative signals of economic activity through a number of self-reinforcing contractionary spirals, including negative wealth effects, a reduction in collateral value, a negative impact on bank balances, and a credit crunch.

Losing a home may be the most dramatic immediate consequence of over-indebtedness at the individual level. At the societal level, over-indebtedness can lead to a general weakening of housing standards. With decreasing prices, there are not enough investments in building new homes and renovating old ones. General housing standards may also deteriorate as a result of indebted homeowners' behaviour. Home-owners at risk of default reduce investments in their property in the expectation that some value will go to the lender in the event of foreclosure (Melzer, 2017).

Effects of debt-related stigma: individual consequences

Mental health and physical health

The bulk of the research focusing on the consequences of over-indebtedness is concentrated on health, especially mental health. The association between debt and mental health is well established. The link is forged through debt-related stigma. Sweet (2018) showed that endorsing a neoliberalised view of personal debt as failure is associated with significantly worse health across a range of measures. There is also a gender dimension attached to debt-related stigma. When men have sole responsibility for managing incomes constrained by over-indebtedness, they may experience the anxiety and depression more typically experienced by women (Goode, 2012a).

A systematic review and meta-analysis by Richardson *et al*. (2013) demonstrated a strong relationship between unsecured debt and health, especially between debt and mental health, particularly depression. The summary produced by Turunen and Hiilamo (2014) showed that the onset of mortgage indebtedness was associated with deteriorating mental health, and that persons who failed to pay their mortgage or whose house was repossessed reported a particularly high prevalence of mental and physical health impairments. To date, most of the research on the health effects of over-indebtedness has been conducted in the US and the UK. In the review by Turunen and Hiilamo (2014), almost half of the reviews (33 studies) focused on the US, while a third focused on the UK.

Lenton and Mosley (2008) showed that a high-interest debt repayment structure and worry exacerbate debt problems and influence health-seeking behaviour in the UK. Studies from Germany show that indebtedness and unemployment correlate slightly with mortality (Brzoska and Razum, 2008) and with suicide rates (Weyerer and Wiedenmann, 1995).

The pathway linking debts to physical health includes both stress- and health-related behaviour (Nelson *et al*., 2008). Over-indebtedness may be associated with not being able to consume health-enhancing food and services, to access healthcare and to fully participate in social life (Goode, 2012b; see also Münster *et al*., 2009; Averett and Smith, 2014). A cross-sectional survey among clients of officially approved debt and insolvency counselling centres in Germany identified over-indebted individuals, and particularly over-indebted men, as a high-risk group of smokers (Rueger *et al*., 2013). Studies from Finland showed that over-indebtedness was also associated with the incidence of chronic disease, including severe depression, in a follow-up setting (Blomgren *et al*., 2016, 2017). These retrospective epidemiological studies were based on an analysis of persons who had become over-indebted with recorded credit default entries for at least fifteen years.

Employment

Losing a job, or having difficulties finding one, may result both from subjective and objective experiences of social stigma. The effects of feeling a failure may undermine a default debtor's ability to access employment since potential employers may also ostracise applicants with a bad credit history (European Commission, 2008). The lack of self-confidence resulting from over-indebtedness may come across badly at job interviews (including becoming upset during them). Potential employers regard wage attachments, for example, as an indicator of an unbalanced way of living. The over-indebted person who hides the truth about his/her current wage attachments in a job interview could be dismissed once the attachments are discovered by the employer. Wage attachments should not, strictly speaking, constitute a reason for dismissal or a barrier to engagement, but in reality they may do so (CPEC, 2013: 190). With wage attachments or agreed terms of debt settlement, there are also built-in disincentives for work. The debtor may not be motivated to earn more if all excess income goes towards repaying the debts.

The status of being an over-indebted individual may also affect those who are in work. It could reflect negatively on relationships at work or decrease work productivity. In the acute stage of over-indebtedness, workers may have difficulty keeping their mind off their debts and concentrating on their work: over-indebtedness often requires time off work due to stress. They may also need to stay away from work for debt stress-related illnesses. Studies from Finland showed that over-indebtedness was also associated with the risk of disability retirement in all diagnostic groups (Blomgren *et al.*, 2016; 2017). One reason for unwillingness to move into paid work could also be the consequence of feeling a failure, which undermines and demotivates the over-indebted to participate in the labour market (CPEC, 2013: 189).

Human relationships

Research leaves little doubt that stress accompanied by over-indebtedness may disrupt family stability and increase tension between spouses, family members and friends. It is often found that when a household enters a 'debt spiral' with no prospect of recovery, severe depression, relationship break-up and other problems are likely to result (Eurofound, 2012). In Dew's (2011) study in the US on the association between consumer debt and divorce, consumer debt was negatively associated with marital satisfaction for both husbands and wives. The more consumer debt that couples had accumulated, the less happy they were in their marriage. Consumer debt caused financial disagreements and made individuals feel financially unstable. Over-indebtedness may affect human relationships beyond the intimate partner relationship. Asking for help from better-off family members can be complicated. Asking for irregular loans from friends and acquaintances may also be a difficult task (Desmond, 2016: 121).

Intergenerational effects

Where, when and to whom you are born largely determines what kind of opportunities you will have in life. In a study by the Civic Consulting of the Consumer Policy Evaluation Consortium (CPEC, 2013: 191), many interviewees were concerned about the effect of over-indebtedness on their children. When a household is under financial stress, parents need to cut down all spending, including spending on their children. This means that the over-indebted cannot, for example, afford to send their children to extracurricular activities and let them do what their friends and classmates are doing (CPEC, 2013: 179).

Berger and Houle (2016) demonstrated that in the US higher levels of home mortgage and education debt were associated with greater socio-emotional well-being for children, whereas higher levels of and increases in unsecured debt were associated with lower levels of and declines in child socio-emotional well-being.

Likewise in the US, Mykyta (2015) showed that families experiencing foreclosure had lower incomes; experienced greater hardship and food insecurity; had higher odds of accessing the public safety net; and were less likely to receive support from private safety nets than their counterparts. The changes in foreclosure status were associated with reduced economic well-being, increased hardship and food insecurity. Children whose families experienced foreclosure had lower levels of economic well-being and participation in extracurricular activities, more schooling mobility, and less frequent praise and time spent with parents.

Two studies in Finland analysed the association between parental over-indebtedness and children's depression and the receipt of social assistance (a minimum income programme in Finland) using 1987 cohort data. The first study showed that the children of over-indebted families had an elevated risk of depression after controlling for a number of previously known risk factors for depression (Tanskanen, 2015). The second study demonstrated that parental over-indebtedness was associated with children's receipt of social assistance, especially long-term use of social assistance (Lehtonen, 2016).

Effects of debt-related stigma: societal consequences

General trust

Over-indebtedness can lead to negative effects on the whole of society, such as poverty growth, low social cohesion, loss of confidence in the financial industry and reductions in loan offers, even for solvent borrowers. The stigma of over-indebtedness may eventually not only affect the health and well-being of the delinquent borrower, but with all of these effects combined it may also reduce social trust and mutual support in the community.

In the CPEC (2013: 173) study, the stakeholders regarded the loss of consumer confidence in the financial industry as the most important consequence of over-indebtedness. This was most likely due to the fact that representatives of the financial industry were also interviewed as stakeholders. As described above, the financial industry is generally held responsible for the onset of massive consumer over-indebtedness after the global economic crisis.

With eight household surveys from the Netherlands between 2006 and 2013, van der Cruijsen *et al*. (2016) showed that respondents' personal adverse financial crisis experiences not only reduced their trust in banks, but also had an immediate negative effect on general trust. In addition, more widespread cynicism and frustration with the political system was expressed in the CPEC (2013: 199) interviews.

Innovation potential

A substantial number of over-indebted individuals have accrued debts from entrepreneurial activity or self-employment (Poppe *et al*., 2016). The experience of failure is discouraging for the individuals concerned, but it may also have societal consequences. The feeling of failure as a result of over-indebtedness is likely to discourage new innovations. An econometric study involving fifteen countries by Armour and Cumming (2008) showed that bankruptcy laws that are more entrepreneur-friendly give rise to economically significant increases in self-employment per population.

Public expenditure

The CPEC (2013: 197–200) study highlighted several items of public spending which tend to increase as a result of over-indebtedness. These include healthcare services, the cost of providing housing for those who lost their homes through home repossession, free legal aid for insolvent persons, and the cost of the provision of debt advice services. The relationship between debt and unemployment also necessitates more spending on unemployment benefits (Eurofound, 2012). It has been calculated that in the UK the average cost per debt problem to the public and in lost economic output is over 1,000 pounds, with serious problems costing many times more (Pleasence *et al*., 2007).

Discussion

More than ten years after the crisis, the economies of the six countries featured in this study have more or less rebounded in terms of stock prices, employment, GDP volume and consumer confidence, but the household debt levels have started to increase again. The European Central Bank reacted to the crisis by lowering interest rates dramatically. The recovery was slow, partly due to the Greek public debt crisis, and interest rates were cut further, in some cases even below zero. With negative real-term interest rates, household borrowing, especially through mortgages, became lucrative, driving household indebtedness towards new record levels.

If and when we take social stigma seriously, we also need to consider the changes in the social contexts. Consequently, we need to acknowledge that attitudes towards debtors may have changed since the global economic crisis. In the event of economic crises, the role of social stigma should lose significance since a large proportion of the population is affected by the crises and debt problems become more prevalent (Cuesta and Budría, 2015).

What will happen to indebted households when the next recession hits? Sooner or later a recession will loom and with interest rates already near zero level, the means to fight it will be more limited than they were after the economic collapse of 2008. To save society from the devastating consequences of economic recession, there is an urgent need to develop new solutions for over-indebtedness before the next crisis hits the global market. The proposed framework provides a starting point for discussion when designing these solutions.

The US represents a market model of consumer bankruptcy systems that allow the quick discharge of contractual debts, but which exclude many claims by non-commercial/reluctant creditors from the discharge (for example, student debts). An important argument for swift debt discharge is also the fact that creditors are much better insulated against the risk of default than debtors. The rich own the stocks and bonds of the banks. Hence, they also own the loans that the banks have given, and the interest payments flow through the financial system to the rich.

The problem of over-indebtedness is closely linked to wealth inequality. The poor borrow money from the rich to come closer to their standard of living. A poor person's debt is a rich person's asset (Mian and Sufi, 2015). It is ultimately the rich who are lending to the poor through the financial system. In principle, this is the way that a healthy financial market should function. However, with increasing wealth inequality and decreased social mobility, well-endowed creditors must find new borrowers to balance the supply and demand for credit. This comes with a destructive feedback loop whereby the rich invest more and more money in loan markets. As the rich save and the poor borrow, the debt will increase until the markets collapse. Debt accumulates to such an extent that borrowers simply cannot make the repayments and will default on their loans *en masse*. A major contributing factor to the economic collapse in 2008 was the fact that for years the below median income households had accumulated debt, both credit card debt and mortgages, to compensate for stagnating wages.

Reforming consumer bankruptcy systems is not an easy task and policymakers should take into consideration not only the negative effects (both economic and socio-emotional) on individuals, but also on society as a whole. Easing the conditions for consumer bankruptcy is necessary but is likely to provoke opposition from financial institutions and judicial actors. The traditional bank-lending view emphasising the necessity of bank bailouts has been the dominant paradigm for fighting against the consequences of economic crises. Financial regulation, including tax allowances for loans as well as public loan programmes and repayment subsidies, should be analysed critically since they may increase uncontrollable and unsustainable indebtedness. Critical financial literacy education focusing on the pitfalls and injustices in the credit markets may allow individuals to better understand the system and avoid problems.

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