Indebted Societies

In many rich democracies, access to financial markets is now a prerequisite for fully participating in labor and housing markets and pursuing educational opportunities. *Indebted Societies* introduces a new social policy theory of everyday borrowing to examine how the rise of credit as a private alternative to the welfare state creates a new kind of social and economic citizenship. This book provides a rich study of income volatility and rising household indebtedness across OECD countries. Weaker social policies and a flexible knowledge economy have increased costs for housing, education, and raising a family – forcing many people into debt. By highlighting how credit markets interact with welfare states, the book helps explain why similar groups of people are more indebted in some countries than others. Moreover, it addresses the fundamental question of whether individuals, states, or markets should be responsible for addressing socio-economic risks and providing social opportunities.

**Andreas Wiedemann** is Assistant Professor of Political Science and International Affairs at Princeton University and the School for Public and International Affairs. He is also a faculty affiliate with the Niehaus Center for Globalization and Governance and the Center for the Study of Democratic Politics at Princeton. He studies the comparative political economy of advanced democracies, focusing on economic inequality, redistribution and social policies, and electoral politics. His most recent work has been published in the *American Journal of Political Science* and the *British Journal of Political Science*. Wiedemann’s research has been supported by the Social Science Research Council, the Andrew W. Mellon Foundation, the Horowitz Foundation for Social Policy, and the Krupp Foundation, among others. He received the Gabriel A. Almond Award for the Best Dissertation in Comparative Politics and the Ernst B. Haas Award for the best dissertation on European Politics and Societies from the American Political Science Association.
Cambridge Studies in Comparative Politics

General Editor
Kathleen Thelen  Massachusetts Institute of Technology

Associate Editors
Catherine Boone  London School of Economics
Thad Dunning  University of California, Berkeley
Anna Grzymala-Busse  Stanford University
Torben Iversen  Harvard University
Stathis Kalyvas  University of Oxford
Margaret Levi  Stanford University
Melanie Manion  Duke University
Helen Milner  Princeton University
Frances Rosenbluth  Yale University
Susan Stokes  Yale University
Tariq Thachil  University of Pennsylvania
Erik Wibbels  Duke University

Series Founder
Peter Lange  Duke University

Other Books in the Series
Christopher Adolph, Bankers, Bureaucrats, and Central Bank Politics: The Myth of Neutrality
Michael Albertus, Autocracy and Redistribution: The Politics of Land Reform
Michael Albertus, Property Without Rights: Origins and Consequences of the Property Rights Gap
Santiago Anria, When Movements Become Parties: The Bolivian MAS in Comparative Perspective
Ben W. Ansell, From the Ballot to the Blackboard: The Redistributive Political Economy of Education
Ben W. Ansell and Johannes Lindvall, Inward Conquest: The Political Origins of Modern Public Services
Ben W. Ansell and David J. Samuels, Inequality and Democratization: An Elite-Competition Approach
Adam Michael Auerbach, Demanding Development: The Politics of Public Goods Provision in India’s Urban Slums
Ana Arjona, Rebelocracy: Social Order in the Colombian Civil War
David Austen-Smith, Jeffry A. Frieden, Miriam A. Golden, Karl Ove Moene, and Adam Przeworski, eds., Selected Works of Michael Wallerstein: The Political Economy of Inequality, Unions, and Social Democracy
S. Erdem Aytaç and Susan C. Stokes Why Bother? Rethinking Participation in Elections and Protests

Continued after the index
Indebted Societies

Credit and Welfare in Rich Democracies

ANDREAS WIEDEMANN

Princeton University
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Figures</td>
<td>vi</td>
</tr>
<tr>
<td>List of Tables</td>
<td>ix</td>
</tr>
<tr>
<td>Acknowledgments</td>
<td>xi</td>
</tr>
<tr>
<td>1 Credit and Welfare in Rich Democracies</td>
<td>1</td>
</tr>
<tr>
<td>2 A Social Policy Theory of Everyday Borrowing</td>
<td>26</td>
</tr>
<tr>
<td>3 Financial Shortfalls and the Role of Welfare States</td>
<td>57</td>
</tr>
<tr>
<td>4 Credit Regimes and Patterns of Household Indebtedness</td>
<td>86</td>
</tr>
<tr>
<td>5 Borrowing to Address Labor Market Risks</td>
<td>124</td>
</tr>
<tr>
<td>6 Borrowing during the Life Course</td>
<td>166</td>
</tr>
<tr>
<td>7 The Political and Socioeconomic Consequences of Credit and Debt</td>
<td>200</td>
</tr>
<tr>
<td>8 Implications and Conclusion</td>
<td>234</td>
</tr>
<tr>
<td>Appendix</td>
<td>251</td>
</tr>
<tr>
<td>Bibliography</td>
<td>290</td>
</tr>
<tr>
<td>Index</td>
<td>314</td>
</tr>
</tbody>
</table>
Figures

1.1 Household debt ratios in OECD countries, 1995 and 2015 page 3
1.2 Dominant ways to cope with income losses across countries 5
1.3 Unsecured debt leverage in Denmark, the United States, and Germany by income tertile 7
2.1 Micro perspective: How households address financial shortfalls 37
2.2 Coping with financial shortfalls: Public and private options 38
2.3 Macro perspective: How the structure of welfare and credit regimes shapes coping strategies 46
2.4 Macro perspective: Country-level constellations of coping strategies 47
2.5 Temporal dimension of income-smoothing strategies 51
2.6 Two “models” of addressing financial shortfalls 52
3.1 Stylized model linking income loss and income volatility 60
3.2 Income volatility across countries and households 64
3.3 Welfare states’ degree of financial buffer 66
3.4 Employment disruption, life course choices, and net income volatility 69
3.5 Share of unemployed individuals by duration of unemployment 74
3.6 Distribution of children in households by parents’ employment status in 2018 79
3.7 Family policies and childcare costs 80
3.8 Preferences for funding of childcare and paid parental leave in 2012 82
4.1 Credit flows in OECD countries, averages for 1994 to 2005 93
4.2 Credit permissiveness scores across OECD countries 96
4.3 Credit regime permissiveness scores, ranked averages for 2000–2017 97
4.4 Share of households with easy access to credit, averages for 2000–2010 112
List of Figures

4.5 Debt burden in Denmark, the United States, and Germany by income 114
4.6 Debt burden in Denmark, the United States, and Germany by liquid savings 116
4.7 Odds ratios for coping strategies, country intercepts 119
4.8 Predicted effect of unemployment insurance generosity on household debt by credit regime permissiveness 121
5.1 Initial and long-term unemployment replacement rates in 2016 128
5.2 Average unsecured debt-to-income ratios among the unemployed in Denmark 129
5.3 Baseline effect of unemployment on unsecured debt in Denmark 132
5.4 Effect of unemployment on unsecured debt by financial shortfall in Denmark 133
5.5 Effect of unemployment on unsecured debt by income in Denmark 135
5.6 Average unsecured debt-to-income ratios among the unemployed in the United States 138
5.7 Variation in unsecured debt levels by employment status in the United States 139
5.8 Distribution of maximum unemployment insurance benefit generosity in US states, 1996–2011 142
5.9 Effect of unemployment insurance generosity on unsecured debt among unemployment benefit recipients 144
5.10 Fewer work hours and unsecured debt leverage in the United States 146
5.11 Average unsecured debt-to-income ratios among the unemployed in Germany 149
5.12 Likelihood of using overdraft lending facilities by employment status in Germany 153
5.13 Differences in unsecured debt between unemployed and employed individuals before and after the German Hartz IV labor market reform 157
5.14 Effect of home equity reform on household debt among savings-constrained households by employment status in Denmark 162
5.15 Average unsecured debt-to-income ratios among the unemployed by income 164
5.16 Coping with financial shortfalls in the labor market: Variation across and within countries 165
6.1 Average unsecured debt-to-income ratios by life course stages and income in Denmark 171
List of Figures

6.2 Effect of life course stages on unsecured debt by income in Denmark 173
6.3 Net childcare costs as share of household net income across families 174
6.4 Effect of home equity reform on household debt among savings-constrained households by employment status in Denmark 176
6.5 Job switches, income changes, and unsecured debt in Denmark 178
6.6 Average unsecured debt-to-income ratios by degree of labor market participation and income in the United States 180
6.7 Average unsecured debt-to-income ratios during unpaid absence and part-time work in the United States 181
6.8 Unsecured debt by employment status in the United States 183
6.9 Unsecured debt and the cost of childcare in the United States 186
6.10 Likelihood of bankruptcy by family type in the United States 187
6.11 Average unsecured debt-to-income ratios by life course stages and income in Germany 191
6.12 Effect of labor market status on debt repayment in Germany 193
6.13 Childcare costs and debt repayment in Germany 194
7.1 Distribution of the economic insecurity index 214
7.2 Debt leverage and economic insecurity across countries 216
7.3 Credit access, risk of job loss, and support for social insurance 219
7.4 Debt leverage and support for social insurance across countries 221
7.5 Wealth, debt leverage, and support for social insurance 225
7.6 Attitudes toward borrowing, debt leverage, and support for social insurance 227
7.7 Political ideology, debt leverage, and support for social insurance 230
A.3.1 Weighted gross and net income volatility 254
A.3.2 Weighted net income volatility by employment status 255
A.4.1 Raw values of the credit regime indicators (averages for 2000–17) 256
A.4.2 Distribution of countries along the first two principal components (averages for 2000–17) 256
A.5.1 Marginal effect of unemployment on debt-to-income ratio by size of financial gaps, debt normalized by prior income in Denmark 261
### Tables

<table>
<thead>
<tr>
<th>Table number</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Dimensions of credit regimes</td>
<td>36</td>
</tr>
<tr>
<td>2.2</td>
<td>Social policy dimensions of welfare states and credit markets</td>
<td>44</td>
</tr>
<tr>
<td>2.3</td>
<td>Empirical implications of the argument</td>
<td>56</td>
</tr>
<tr>
<td>4.1</td>
<td>Credit regime indicators: Measurement and data sources</td>
<td>95</td>
</tr>
<tr>
<td>4.2</td>
<td>Credit and welfare institutions: Summary by country cases</td>
<td>122</td>
</tr>
<tr>
<td>5.1</td>
<td>Average employment tenure and duration of unemployment in 2015 (in percent)</td>
<td>127</td>
</tr>
<tr>
<td>5.2</td>
<td>Effect of degrees of labor market attachment on unsecured debt in Germany</td>
<td>151</td>
</tr>
<tr>
<td>5.3</td>
<td>Effect of unemployment on unsecured debt in Germany</td>
<td>152</td>
</tr>
<tr>
<td>5.4</td>
<td>Effect of the German Hartz IV labor market reform on unsecured debt</td>
<td>158</td>
</tr>
<tr>
<td>6.1</td>
<td>Unpaid maternity leave and unsecured debt in the United States</td>
<td>185</td>
</tr>
<tr>
<td>6.2</td>
<td>Job switches, income changes, and unsecured debt in the United States</td>
<td>188</td>
</tr>
<tr>
<td>6.3</td>
<td>Absence from work to care for sick children and household debt in Germany</td>
<td>195</td>
</tr>
<tr>
<td>6.4</td>
<td>Job switches, income changes, and indebtedness in Germany</td>
<td>196</td>
</tr>
<tr>
<td>7.1</td>
<td>Effect of access to credit and indebtedness on social insurance preferences</td>
<td>210</td>
</tr>
<tr>
<td>7.2</td>
<td>Credit access, risk of job loss, and social policy preferences</td>
<td>220</td>
</tr>
<tr>
<td>A.3.1</td>
<td>Definition of sources of income volatility</td>
<td>254</td>
</tr>
<tr>
<td>A.4.1</td>
<td>Coping strategies by country, fixed effect results</td>
<td>257</td>
</tr>
<tr>
<td>A.4.2</td>
<td>Marginal effects of unemployment insurance generosity and credit permissiveness on household debt</td>
<td>258</td>
</tr>
<tr>
<td>A.4.3</td>
<td>Marginal effects of unemployment insurance generosity and credit permissiveness on household debt: robustness to lagged DV</td>
<td>259</td>
</tr>
</tbody>
</table>
List of Tables

A.4.4 Marginal effects of unemployment insurance generosity and credit permissiveness on household debt: robustness to crisis dummies 260
A.5.1 Effect of unemployment insurance generosity on unsecured debt among unemployment benefit recipients in the United States 262
A.5.2 Effects of part-time work on unsecured debt in the United States 264
A.5.3 Marginal effects of degrees of labor market attachment on unsecured debt in Germany 265
A.5.4 Marginal effects of unemployment on unsecured debt in Germany 266
A.5.5 Predicted probabilities of using overdraft lending facilities by employment status and income in Germany 267
A.5.6 Predicted probabilities of using overdraft lending facilities by employment status and savings in Germany 268
A.5.7 Effect of the German Hartz IV labor market reform on unsecured debt 270
A.5.8 Effect of home equity reform on household debt among savings-constrained households by employment status in Denmark 271
A.6.1 Effect of life course stages on unsecured debt by income in Denmark 272
A.6.2 Unpaid maternity leave and unsecured debt in the United States 273
A.6.3 Job switches, income changes, and unsecured debt in the United States 275
A.6.4 Effect of labor market status on debt repayment in Germany 277
A.6.5 Odds ratios of childcare cost on the probability of debt repayment in Germany 279
A.6.6 Absence from work to take care of sick children and household debt in Germany 280
A.6.7 Job switches, income changes, and indebtedness in Germany 281
A.7.1 Detailed survey information 283
A.7.2 Factor loadings for economic insecurity index 283
A.7.3 Marginal effects of debt leverage and economic insecurity across countries 283
A.7.4 Question wording and scores 285
A.7.5 Factor loadings for political values score 286
A.7.6 Marginal effects of debt leverage and economic insecurity across countries 287
A.7.7 Marginal effects of debt leverage on support for social insurance across countries 288
Acknowledgments

I started thinking about the ideas in this book as a graduate student at the Massachusetts Institute of Technology. I have long been fascinated by the role of financial markets in modern societies and their relationships with governments, societies, and people. As I saw how deeply credit and debt had become embedded into the social fabric of our communities, and how destructive financial crises can be to people’s livelihoods, I wanted to understand what the growing availability of credit meant for the provision of public goods and services and the structure of social rights and responsibilities across rich democracies. This book examines how the rise of credit as a private alternative to the welfare state shapes the ways in which individuals and their families cope with social risks and seize social opportunities.

True to the title of the book, I have developed my own “indebted society” that provided me with the intellectual guidance, support, and comfort to tackle and unpack these relationships with conceptual rigor and the empirical tools of modern social science. First and foremost, I owe immense debts of gratitude to my dissertation committee. Kathy Thelen has been a tremendously helpful and encouraging source of guidance, inspiration, advice, and support at every step leading to this book. She taught me not to shy away from asking big questions and inspired me to incorporate the American political economy into a comparative perspective. David Singer continuously helped me sharpen the argument and think about the empirical implications of my theoretical framework. He deepened my knowledge of the role of finance and pushed me to integrate international and comparative political economy. Torben Iversen had a lasting influence on my thinking about the welfare state, social insurance, and popular support for redistributive policies. His careful guidance toward conceptual clarity undoubtedly improved the manuscript. Danny Hidalgo provided invaluable support and advice about empirical methods and research design and offered a fresh eye and sharp questions on issues of indebtedness in advanced economies. I could not have wished for a better group of scholars and colleagues and am deeply thankful for many hours of support and advice.
that made this book possible. They also showed me what it means to be a
dedicated mentor and caring teacher, and I can only hope to repay this debt to
others.

My gratitude extends to many more colleagues and friends in the Cam-
bridge area – some of whom have moved on to other places – who took
the time to read and discuss parts of this project and helped me improve it. I would
like to thank especially Suzanne Berger, Adam Berinsky, Andrea Campbell,
Devin Caughey, Peter Hall, In Song Kim, Rich Nielsen, Ben Ross Schneider,
Lucas Stanczyk, Lily Tsai, and Teppei Yamamoto for their guidance and men-
torship. This book would not exist without my graduate school friends. I
owe so much to Elissa Berwick, James Conran, Fiona Cunningham, James
Dunham, Jeremy Ferwerda, Tom O’Grady, Susana Cordeiro Guerra, Yue
Hou, Nicholas Intscher, Marika Landau-Wells, Philip Martin, Nina McMurry,
Ben Morse, Tesalia Rizzo, Leah Rosenzweig, Guillermo Toral, Martin Liby
Troein, Weihuang Wong, Yiqing Xu, and Ketian Zhang. Their personal friend-
ship, intellectual support, and critical feedback often led me to rethink my
arguments and made me a better scholar and, hopefully, writer.

Earlier stages of this research project benefited from comments and feedback
at the Social Science Research Council SSRC Dissertation Proposal Develop-
ment workshops, particularly from Isaac Martin and Abhit Bhandari. David
Brady hosted me at the Wissenschaftszentrum in Berlin, which allowed me
to develop the book’s core argument further. Ben Ansell was kind enough to
invite me to a brief stay at Nuffield College, Oxford University, and has been
a tremendously helpful and inspiring mentor since. The manuscript came fully
together years later, again at Nuffield College. The Prize Postdoctoral Research
Fellowship made the completion of this book possible by providing a unique
place to write, think, and engage with a remarkable intellectual community. I
was fortunate to hold a book workshop at Nuffield with Ben Ansell, Charlotte
Cavaillé, Pepper Culpepper, Jane Gingrich, David Rueda, and Tim Vlandas.
They all were more generous with their time than I could have hoped, read the
manuscript in incredible detail, and offered invaluable feedback, suggestions,
and advice that greatly improved the manuscript. I owe all of them a deep debt
of gratitude as well.

I am tremendously grateful to Desmond King, Chloe Thurston, and Tess
Wise, who have read parts of the book, provided feedback at many stages, and
have crucially shaped the ways I think about finance and credit. I thank David
Dreyer Lassen, Jacob Gerner Hariri, and especially Amalie Jensen for many
conversations about my own work and for letting me use part of our survey
data we had collected for a larger project. Christian Lyhne Ibsen generously
facilitated access to the Danish register data and supported the project along
the way. Finally, Mark Manger and Andrew Walter deserve a special thank-
you note. Their guidance and advice during my time at the London School of
Economics ultimately convinced me to embark on an academic route.
Acknowledgments

I would like to thank many colleagues at various institutions for helpful conversations about and critical feedback on parts of this project, especially Søren Kaj Andersen, Jens Arnholtz, Lucy Barnes, Rachel Bernhard, David Brady, Ashi Cansunar, Michael Donnelly, Andy Eggers, Jacob Hacker, Tim Hicks, Larry Jacobs, Patricia Kirkland, Martin Vīnaes Larsen, Maxime Lepoutre, Jonas Markgraf, Lucas Müller, Darius Ornston, Barbara Piotrowska, Patricia Posey, Soledad Prillaman, Alexander Reisenbichler, Kilian Rieder, Nelson Ruiz, Leonard Seabrooke, and James Wood. I also am grateful to countless participants and discussants at conferences and at seminars at Harvard, Oxford, the University of Copenhagen, the University of Toronto, University College London, and the Wissenschaftszentrum Berlin. I would also like to thank Iver Kjar and Anders Ellesgaard at Finanstilsynet Denmark and David Michaelson at Statistics Denmark.

I finished the manuscript after joining Princeton’s Politics Department and the School for Public and International Affairs. My colleagues and graduate students are exemplary in their devotion to ideas and rigorous social science scholarship and a true source of inspiration. I thank all my colleagues for their advice and continuous support, and I am especially grateful to Rafaela Dancygier and Deborah Yashar for their valuable comments, feedback, and encouragement along the way.

This research would not have been possible without the generous financial support from many sources. I am thankful for funding and grants I received from MIT, in particular the Department of Political Science and the Center of International Studies. The Social Science Research Council and the Horowitz Foundation for Social Policy generously supported data collection and analyses. The Krupp Foundation and the Center for European Studies at Harvard University enabled an extended research trip to Germany, Denmark, and the United Kingdom. The survey data I draw on in Chapter 7 was generously funded by David Dreyer Lassen’s European Research Council Grant No. 313673. The Mamdouha S. Bobst Center for Peace and Justice at Princeton helped with research support. I thank all of them for their financial support. Yutian An and Owen Engel provided excellent research assistance for the credit regime permissiveness measures. Amanda Pearson and Sergey Lobachev helped with thorough and swift editorial and indexing support in the final stages of the manuscript.

Robert Dreesen and Sara Doskow at Cambridge University Press are fantastic editors who enthusiastically supported the book. I am grateful to both for patiently guiding me through the publishing process as well as to two anonymous manuscript reviewers who provided excellent and thoughtful comments and suggestions. The manuscript has undoubtedly improved as a result and hopefully lives up to their expectations.

Finally, I owe the deepest gratitude to my family. Alisa, who sailed with me through this journey, helped me put things into perspective, and provided refuge in a world beyond academia. With her wit and humor, she always kept
Acknowledgments

my mood and spirit high. And to my mother, who inspired me to ask questions about social justice and supported my academic journey into the United States. I am more than grateful for everything she has done for me and I will keep trying to make her proud. I dedicate this book to her, for always being there.