

EXPENDITURE CASCADES, LOW INTEREST RATES OR PROPERTY BOOMS?

DETERMINANTS OF HOUSEHOLD DEBT IN OECD COUNTRIES



LECTURE BY

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WEDNESDAY, NOVEMBER 7, 05:20 P.M. | N15, ROOM 202

ABSTRACT | The past decades have witnessed a strong increase in household debt and fast growth of private consumption expenditures in many countries. This paper empirically investigates four explanations: First, the expenditure cascades hypothesis argues that an increase in inequality induced lower income groups to copy the spending behaviour of richer peer groups and thereby drove them into debt ('keeping up with the Joneses'). Second, the housing boom hypothesis argues that increasing property prices encourage household spending and household borrowing due to wealth effects, eased credit constraints, the prospects of future capital gains and changes in mental accounts. Third, the low interest hypothesis argues that low interest rates encouraged households to take on more debt. Fourth, the credit market deregulation hypothesis argues that deregulation boosted credit supply. The paper tests these hypotheses by estimating the determinants of household borrowing using a panel of 13 OECD countries (1980-2011). Results indicate that real estate prices were the most important drivers of household debt which we interpret as the result of speculative dynamics in real estate markets. In contrast we do not find a significant impact of shifts in the income distribution on household sector indebtedness. Our results are consistent with the credit deregulation and low interest rate hypotheses, but their explanatory power for the 1995-2007 period is low.

BIO | Engelbert Stockhammer is Professor of International Political Economy at King's College London. He has worked on Post Keynesian Economics, financialization, wage-led demand regimes and economic policy in Europe and is ranked among the top 5% of economists worldwide by REPEC. Recent books include Wage-Led Growth. An Equitable Strategy for Economic Recovery.

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