Social Science Research xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Social Science Research

journal homepage: www.elsevier.com/locate/ssresearch

Varieties of indebtedness: Financialization and mortgage market institutions in Europe

Tod Van Gunten[a,*], Edo Navot[b]

[a] University of Edinburgh, Chrystal Macmillan Building, 15a George Square, Edinburgh EH8 9LD, United Kingdom
[b] Columbia University, Institute for Social and Economic Research and Policy (ISERP), International Affairs Building, 420 West 118th St, Suite 370, Mail Code 3355, New York, NY 10027, United States

ARTICLE INFO

Keywords:
Financialization
Institutions
Household debt

ABSTRACT

During the global housing boom that preceded the 2007–9 financial crisis, household debt increased substantially in many European countries, posing a challenge for literature on financialization and the institutional heterogeneity of mortgage markets. This paper examines recent institutional shifts in European mortgage markets and specifies three analytically distinct models of debt accumulation: inclusion, extension and intensity. While existing research has emphasized inclusion (access to homeownership), we show that financial intensification is an important determinant of cross-national variation in debt. We assess the variation in financial intensity in six European countries (France, Germany, Italy, the Netherlands, Portugal and Spain) using household-level survey data. Our results show that inclusion and expansion explain only part of the cross-national variation in mortgage debt to income ratios. Furthermore, household financial behavior is consistent with the financial intensity model, and variation in the degree of financial intensification explains a substantial portion of the cross-national difference in debt levels.

1. Introduction

The global financial crisis of 2007–2009 had its roots in a rapid expansion of mortgage credit and associated growth in household debt (Mian and Sufi, 2014). Though prominently associated with the “subprime” mortgage market in the United States, the debt expansion was not uniquely American: the housing boom was global in scope but varied in impact. In countries as diverse as Australia, Portugal, Norway and the Netherlands, household debt rose faster and reached higher levels than in the United States (see Fig. 1). This cross-national variation in household debt poses a puzzle for the emergent literature on the impact of “financialization” processes on households (van der Zwan, 2014; Fligstein and Goldstein, 2015; Davis, 2009; Krippner, 2011) and the economic sociology (and political economy) of credit and debt (Prasad, 2013; Carruthers and Ariovich, 2010; Schelkle, 2012a; Fuller, 2016; Schwartz and Seabrooke, 2009). While this body of work sheds important light on the institutional determinants of household debt levels, recent institutional changes in European mortgage markets and household financial behavior have not been adequately studied. Moreover, this literature has not sufficiently delineated processes which affect the proportion of debtors in society from those which impact the volume of debt among debtors; that is, the difference between *more households borrowing* and *households borrowing more.* We show that differential financial *intensity* facilitated by the heterogeneous transformation of European mortgage markets plays a central role in cross-national variation in household debt.

* Corresponding author.
E-mail address: tvangun@ed.ac.uk (T. Van Gunten).

https://doi.org/10.1016/j.ssresearch.2017.11.005
Received 18 August 2016; Received in revised form 16 November 2017; Accepted 26 November 2017

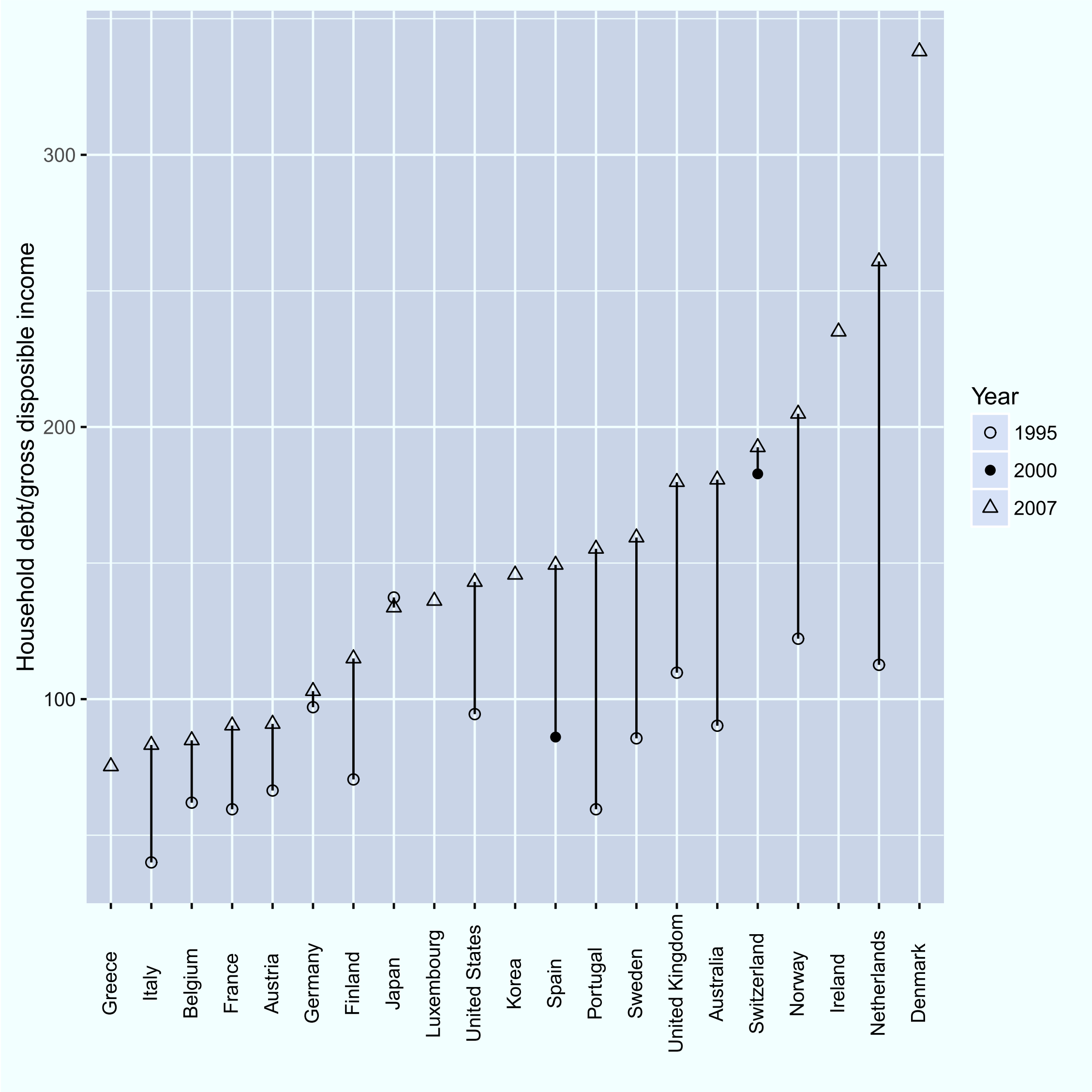

Fig. 1. Household debt/gross disposable income (data: OECD).

Because mortgage debt makes up the largest share of household debt (around 80% in most European countries), mortgage and housing markets play the pivotal role in total debt burdens. Many existing institutional accounts of household debt levels invoke financial *inclusion* and *extension* models according to which debt levels primarily reflect homeownership rates and access to credit. In contrast, the analytically distinct financial intensity model stresses that rising debt burdens are partially independent of homeownership rates and credit access. On this model, households borrow more (generally in response to rising housing prices), often by drawing on higher-risk financial contracts, raising the probability that debt payments become a hardship. Policy and other institutional frameworks make intensification possible by influencing the availability of particular mortgage contracts, such as long-term loans, second mortgages, and refinancing opportunities that allow households to extract home equity.

The main contributions of this paper are to analytically specify these distinct models of debt accumulation, demonstrate that financial intensification is a key determinant of variation in household debt, and show how institutional shifts in European mortgage markets have enabled this intensification to take place. We use recent microdata to examine the borrowing behavior of households in six countries: France, Germany, Italy, the Netherlands, Portugal and Spain. Debt levels in these countries range from very high (the Netherlands, with the second highest level of debt among OECD countries) to comparatively low (Italy, with the second lowest level in Western Europe). The Netherlands is particularly interesting because it avoided a mortgage market crisis despite its high debt level, while Spanish and Portuguese households suffered rising loan delinquency rates during the financial crisis. Germany is unique among developed countries in that household debt levels actually *fell* during the global housing boom. These six countries therefore illustrate the varieties of indebtedness corresponding to distinct institutional configurations of mortgage markets, household behavior, and