Household Debt and Spending in the United Kingdom

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Summary I

- for UK, the authors document a major build-up of household debt in the run up to the crisis (1992-2007) and a subsequent fall in household spending

→ the main question asked:

to what extent are these 2 findings related?

- a question of obvious importance to policy makers

– debt contributing to the economic slump?

- previous literature:
  - mostly US focus
- this paper:
  - new data (micro, LCF survey), different country (UK)

Summary II

- more indebted households (or groups of households) reduced consumption by 2-3% more following the financial crisis 2008/9
- (likely) channels:
  1. more concerns over future debt servicing
  2. tighter credit conditions
- spending cuts due to indebtness reduced the level of private consumption by up to 2% after 2007, deepening the recession

Comments I

- well-written paper, easy to read
- the main limitations are methodolodical, originating from the nature of the data (repeated cross-section, not a panel)
  a. construct a pseudo panel (*cohorts*)
  b. cross-sectional analysis using *contemporaneous relationships* of debt and consumption

Comments II

- the authors differentiate between hhs with and without mortgage debt / with different levels of debt – i.e. debt-to-income burden
  - how about also differentiating between (groups/cohorts of) mortgage holders with (prevalently) **fixed rate** vs those with (prevalently) **floating rate**?

→the latter group likely to be more sensitive to interest rate changes, evidence may further support the role of concern over one's ability for future debt repayments (**channel 1**)

- some background on UK mortgage market structure
  - can hh default on their loans? if underwater? («jingle mail»)

Comments III

- as for the role of credit constraints (**channel 2**), the important question may be **who do you owe money to**?
  – if data available, you may differentiate between the (groups, cohorts of) debtors who rely almost exclusively on formal debt (i.e. banks) and those who more extensively borrow from peers/friends/family

→the banks are better equipped than your friends to make sure you repay

- durables vs non-durables differ in terms of priority in spending (essential vs non-essentials)
  – but also in **financing**! → durables are more often financed by debt (which brings us back to supply/demand for credit)

Minor Comments I

- standard errors clustering?
- missing data – prevalence and treatment?
- survey weights?
- Table A - Tobit estimates, ME or coefficients?
- all variables should be included in the summary statistics

(e.g. in section 4.2.2., share of people with unsecured debt – a variable from WA Survey)

- variables description in a separate table
- the last sentence in the abstract inconclusive:
  - what kind of policy action?

- typos – to be provided in hard copy :)

Conclusion

- relationship of indebtness in „good times“ and consumption cuts in „bad times“
- some work on this topic exists, but mostly focused on US
- a valuable analysis using new data, different country (UK)

the authors combine methodology and additional information from other datasets to alleviate these limitations

- it may be difficult to generalize the results as it is a single country study but the results are in line with the previous literature in other countries, suggesting a consistent pattern