

## Consumer Over-Indebtedness in Germany: An Investigation of Key Determinants

**Authors :** Xiaojing Wang, Ann-Marie Ward, Tony Wall

**Abstract :** The problem of over-indebtedness has increased since deregulation of the banking industry in the 1980s, and now it has become a major problem for most countries in Europe, including Germany. Consumer debt issues have attracted not only the attention of academics but also government and debt counselling institutions. Overall, this research aims to contribute to the knowledge gap regarding the causes of consumer over-indebtedness in Germany and to develop predictive models for assessing consumer over-indebtedness risk at consumer level. The situation of consumer over-indebtedness is serious in Germany. The relatively high level of social welfare support in Germany suggests that consumer debt problems are caused by other factors, other than just over-spending and income volatility. Prior literature suggests that the overall stability of the economy and level of welfare support for individuals from the structural environment contributes to consumers' debt problems. In terms of cultural influence, the conspicuous consumption theory in consumer behaviour suggests that consumers would spend more than their means to be seen as similar profiles to consumers in a higher socio-economic class. This results in consumers taking on more debt than they can afford, and eventually becoming over-indebted. Studies have also shown that financial literacy is negatively related to consumer over-indebtedness risk. Whilst prior literature has examined structural and cultural influences respectively, no study has taken a collective approach. To address this gap, a model is developed to investigate the association between consumer over-indebtedness and proxies for influences from the structural and cultural environment based on the above theories. The model also controls for consumer demographic characteristics identified as being of influence in prior literature, such as gender and age, and adverse shocks, such as divorce or bereavement in the household. Benefiting from SOEP regional data, this study is able to conduct quantitative empirical analysis to test both structural and cultural influences at a localised level. Using German Socio-Economic Panel (SOEP) study data from 2006 to 2016, this study finds that social benefits, financial literacy and the existence of conspicuous consumption all contribute to being over-indebted. Generally speaking, the risk of becoming over-indebted is high when consumers are in a low-welfare community, have little awareness of their own financial situation and always over-spend. In order to tackle the problem of over-indebtedness, countermeasures can be taken, for example, increasing consumers' financial awareness, and the level of welfare support. By analysing causes of consumer over-indebtedness in Germany, this study also provides new insights on the nature and underlying causes of consumer debt issues in Europe.

**Keywords :** consumer, debt, financial literacy, socio-economic

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