

New Horizons Hub: seeing debt for what it is

A European survey of almost 26,000 people in 13 countries found that while delayed payment options are increasingly available at the online checkout, a third would not feel they were taking on debt if they used them, writes ING's Jessica Exton. We pick up on this in our top selection of this week's stories from ING authors and trusted third-party providers

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Behaviour matters when managing debt

The naturally attractive nature of discretionary debt is such that the pain of paying is delayed, and consumption gratification can be made near-immediate. Therefore, in addition to having enough in the bank to repay dues, our behaviour is essential to debt management.

Calculating and prioritising spending and repayment over varying time horizons requires proactivity. Particularly if in the face of financial uncertainty such as many are experiencing during coronavirus.

Debt experiences rely heavily on our financial habits. Those who paid all their bills online last year are also much more likely to say they paid their most recent bill immediately. It's those who delay, even when they could make the payment right then and there, who are more likely to pay late. Habits matter.

Out of all of those who did pay a bill late in the last 12 months, a third either forgot or procrastinated making payment on their most recent bill. It wasn't that they didn't have enough

money to pay immediately. As soon as a payment is distanced, it's hard to keep front of mind and to act on when needed. This is a cognitive weakness of delay.

Debt management starts with recognition

Awareness of debt is key to managing it well. And there has been a slight increase in awareness of discretionary debt throughout Europe since the uncertainty imposed by the coronavirus. Last December 36% of Europeans said that they would not feel like they were going into debt if they selected to buy-now-pay-later, pay with a credit card, shop interest-free, try before they bought or signed a payment contract at the checkout. This number reduced to 30% in May.

But this has not been a uniform shift. The number who said buy now, pay later was definitely not a form of debt decreased by an average of 10% among those earning under €1,000 per month, while shifted only 4% among those earning over €3,000 per month. This reflects increased awareness among those who are more likely to find repayments harder during uncertain times.

And a third (30%) still maintain that they would not feel like they were taking on debt if they delayed a payment.

Delaying payment is naturally attractive

The way delayed payments are presented can add to their appeal. A visit to an online store may present different ways of paying other than simply stumping up now. Options include:

- "Buy Now, Pay Later": Buy goods worth up to €250 and pay in 30 days free-of-charge, returning for free by then anything you have tried but don't want. This taps into "Present Bias". We like to choose immediate rewards, even if relatively small, over comparatively larger ones in the future. Consider choosing one cookie now instead of two later on today.
- "3 Easy Payments": Buy goods worth between €250 and €1,000 and pay a third every 30 days free of charge. We don't naturally focus on totals, and "Chunking" is attractive because it divides large amounts up to make them psychologically more palatable. For example, we might be drawn to a payment presented as €1 a day for a year without considering it as €365.
- "Spread the Cost Up To 4 Years": Buy goods worth more than €250 and spread the cost between six months and four years. No cost up to 24 months, 9.9% interest thereafter. "Hyperbolic Discounting" is the method by which people come to "Present Bias". It has a time and distance element to it. If the promise of two cookies later on today seems a long way off, the prospect of 30 in a month is psychologically even less attractive

More online and removed

Delaying payment removes the pain of paying, enhancing the purchase experience and making taking on debt seamless and effortless for consumers. In addition to limited recognition of delayed payments as debt, reduced mobility during coronavirus has meant many people are now shopping more online and using less cash. Two factors that can further remove the pain of paying, encouraging spending.

While all forms of delayed payment are technically debt - miss a payment and you end up in arrears, not everyone sees it this way. This will influence how the repayment of short-term debts such as delayed payments are managed. No one goes into debt with the aim of getting stuck, but

it does happen. Active debt management is even more important if facing financial uncertainty, as many are during coronavirus. Debt should not be hidden.

There's more on our findings [here](#)

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Time for a change?

The low-wage workers who make up nearly half of the US workforce have long been neglected, steadily falling behind highly educated workers in expanding industries such as technology, finance, and entertainment. Since the 1970s, real (inflation-adjusted) wages have stagnated for prime-age men with less than a college education, and declined significantly for those with a high-school education or less.

Many of these workers find themselves on the front lines of the COVID-19 crisis, where they serve as hospital orderlies, nursing home aides, warehouse and delivery workers, and grocery clerks. Now that there has been a groundswell of (belated) appreciation for their contributions to the economy and society, the question is whether America can use this moment to turn things around for the bottom 50%.

Reversing the trend

Change is possible, but not assured. In an age of big-money politics and union bashing, the bargaining power of low-wage workers – especially minorities – has shrunk, together with their economic fortunes. Consider the federal minimum wage: at \$7.25 per hour, it has actually declined by more than 30% in real terms since 1968. A first step, then, would be to raise it

to \$12 per hour. This would increase earnings at the bottom of the income distribution, and likely have only a minimal effect on overall employment.

A harder challenge is to restore workers' bargaining power. Though political decisions over the past 40 years have undoubtedly weakened organized labor, the decline of unions also reflects broader secular developments. Reversing the trend will probably require new organizational forms.

Technology is a big obstacle

Technology represents the biggest obstacle to improving the lot of low-wage workers. Because the US economy today is so much more automated than it was in the 1970s, a push for higher wages would encourage firms to adopt even more labor-replacing technologies such as robotics and artificial intelligence (AI).

But raising the minimum wage is not the only option. Labor-replacing automation has become prevalent because we have adopted policies and strategies that actively encourage it.

For example, the US tax code strongly favors capital, generating a powerful incentive for firms to replace workers with machines. When a company hires a worker, the government collects both income and payroll taxes, thereby inserting a significant wedge between what employers pay and what workers take home. A company pays less when it deploys a machine, because capital income is taxed much more lightly, and the government implicitly subsidizes capital investments through accelerated depreciation allowances, further tipping the scale against workers.

But the problem doesn't stop there. In the tech sector, the prevailing business model is highly dependent on removing human labor from the economic equation (that is how you "move fast and break things," to borrow Facebook's early slogan). These firms face few constraints in pursuing this model, not least because the US government has abandoned its traditional role in shaping the direction of scientific research and technological innovation.

Tall order

Low-wage workers are not the only the casualties of this change. As good, high-quality jobs have dwindled, wage growth for all workers has begun to ebb, and increasingly unequal growth has begun to erode social cohesion and democratic principles and institutions.

There is nothing inevitable about this. We can use our knowledge base to develop technologies that complement, rather than compete with, human labor, by creating new tasks or boosting workers' productivity in existing and emerging sectors. Moreover, such a worker-first tech policy goes hand in hand with a higher minimum wage and other sorely needed reforms. When technology makes labor critical to the production process, workers' bargaining power will necessarily increase.

Altering a country's tech policy is a tall order, but it has been done many times before. In the 1940s, the United States rapidly redirected its enormous innovation capacity toward munitions and materiel as it mobilized for war. And globally, there have been notable gains in clean-energy innovation in recent decades, to the point that renewables have become competitive with fossil fuels. These technologies did not spring fully formed from the head of the free market. Rather, they are the result of government clean-energy policies such as carbon pricing (though not in the US) and various forms of direct support.

These policies were born of a broader recognition that rising greenhouse-gas (GHG) emissions pose a major threat to humanity. And they benefited from a shared measurement framework that enabled governments and firms around the world to quantify the environmental damage caused by emissions. The same playbook can be used to drive human-complementary technologies. But in this case, it is the first step that may prove most difficult. We need to generate a widespread recognition that relentless automation will not lead to prosperity, but to ruin.

Workers at risk

Then comes the second step: We will need a measurement framework by which to quantify and categorize different technologies. Those that will benefit only capital should incur a cost in the same way that GHG emissions do, whereas those that bolster human productivity and labor demand should be encouraged.

In practice, this framework could be used to monitor how different technologies affect labor's share of output at the level of firms, sectors, and countries. Automation has tended to reduce this share, owing to prevailing incentives. But there is no law of technological determinism requiring that, say, AI be used to replace human labor, rather than to augment it.

Automation itself is not the problem. Industrial robots, AI, and other cutting-edge technologies can increase productivity substantially, just as technological innovations have done in the past. But for the sake of social cohesion and sustainable economic growth, those benefits must be available to workers of all skills and backgrounds.

The pandemic has highlighted the high price low-wage workers in the US have paid for employers' obsessive focus on labor-replacing automation. Without an overhaul of the existing policy framework, the skill bias of automation will continue to broaden, placing an even larger cohort of workers at risk.

The full original article first appeared on Project Syndicate [here](#) on the 6 July 2020.

VoxEU: Predictable financial crises

There is a long-standing debate on whether financial crises can be predicted. This column draws on a chronology of past financial crises and data on...



Source: Shutterstock

How predictable are financial crises?

An important line of thought postulates that they are largely unpredictable. Each of the three principal US policymakers during the 2008 financial crisis has taken this position at different times. Former US Secretary of the Treasury Tim Geithner suggested that “Financial crises cannot be reliably anticipated or pre-empted.” According to former US Secretary of the Treasury Hank Paulson, “My strong belief is that these crises are unpredictable in terms of cause, timing, or the severity when they hit.” According to Federal Reserve Chairman Ben Bernanke, “This crisis involved a 21st century electronic panic by institutions. It was an old-fashioned run in new clothes.” This line of thought is further supported by early empirical studies showing that, even if most crises are preceded by weak economic fundamentals, they are not especially predictable. If these views are correct, then policymakers should concentrate their efforts on ‘firefighting’, or cleaning up after a crisis. But policing market conditions before crises actually happen would be futile.

An alternative view sees financial crises as predictable enough that policymakers should try to prevent or mitigate them *ex ante*. This view sees financial crises as the outcomes of overheated credit markets, characterized by rapid expansions of credit accompanied by asset price booms (Minsky 1977 and Kindleberger 1978). Borio and Lowe (2002) show that rapid credit growth and asset price growth predict banking crises in 34 countries between 1970 and 1999, spurring numerous academic policy studies on so-called ‘early warning indicators’. More recently, Schularick and Taylor (2012) and others have shown that credit expansions and narrow credit spreads predict

financial fragility.

Even with all this evidence, precise estimates of the probability of a financial crisis following credit and asset price booms remain unavailable. In Greenwood et al. (2020), we draw on newly available crisis chronologies and data to estimate the probability of financial crises as a function of past credit and asset price growth.

A key quote from the article:

Our first finding is that if there is a large credit expansion with an asset price boom, then financial crises are in fact highly predictable. When either non-financial business credit growth is high and stock market valuations have risen sharply, or when household credit growth is high and home prices have risen sharply, the probability of a subsequent crisis is substantially elevated. This is shown in Table 1, where we list the probability of a financial crisis occurring within three years as a function of past credit and asset price growth. The probability of a crisis beginning within the next three years is 45% when equity price growth is in the top tercile of its historical distribution and business credit growth is in the top quintile of its historical distribution. When home price growth is in the top tercile and household credit growth is in the top quintile, the probability of a crisis beginning within three years is 37%.

We use these results to motivate a simple indicator variable called the Red-zone, or the 'R-zone' for short, that identifies periods of potential credit-market overheating. A country is in the 'business R-zone' if non-financial business credit growth over the past three years is in the top quintile of the historical distribution, and stock market returns over the same window are in the top tercile. Similarly, a country is in the 'household R-zone' if household credit growth over the past three years is in the top quintile of the historical distribution, and stock market returns over the same window are in the top tercile. Using these R-zone predictors, we show that crises are predictable but slow to develop, suggesting that policymakers have time to act based on early warning signs. For example, the US was in the household R-zone in 2002-2006, a clear harbinger of the crisis that started in 2007.

The full and original article first appeared on VoxEU [here](#) on 15 July 2020.

VoxEU: Potential for remote working across different places

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Source: Shutterstock
New York

Cities are better equipped for remote working

Many countries have implemented strict containment measures such as social distancing and stay-at-home policies to deal with the spread of COVID-19 (Baldwin and Weder di Mauro 2020). Such measures have required many workplaces to shut, with most of the labour force obliged to stay at home. While lockdowns practically forced many people to stop working, others were able to continue working remotely from home, at least partially, sometimes with almost no activity reduction.

While working from home represents an opportunity to reduce the economic costs of lockdowns and social distancing measures, not all occupations are suitable for remote working. Even more importantly, the possibility for remote working is not the same across locations within countries. As shown by Dingel and Neiman (2020), the first authors to study how remote working can differ across locations in the US, a much larger share of employment is able to shift to remote mode in some places than in others, reducing the economic costs of lockdown more significantly in those

regions.

Our study (OECD 2020) assesses the potential of remote working within 27 EU countries, Switzerland, Turkey and the US. Overall, cities – especially capitals – have a higher share of employment that can potentially be done via teleworking than other places within the same countries. This share is, on average, 15 percentage points higher in the region with the highest potential for remote working than in the region with the lowest potential, reaching more than 20 percentage points in certain countries. The concentration of occupations that have a high remote working potential in some regions drives these large within-country differences.

Here's a key quote from the article:

The share of jobs that are suitable for remote working is an essential element in a region's capacity to function under a lockdown or social distancing conditions. While large cities can suffer from a faster spread of the virus due to higher population density (Stier et al. 2020) and from greater specialisation in sectors that are particularly hard hit by lockdowns (OECD 2020), a higher potential for remote working can provide them with a source of resilience to the economic shock of the COVID-19 crisis. Still, both individual constraints – such as a lack of necessary equipment or working environment – and place-based constraints – such as the availability of a high-speed internet connection – can affect the capacity for people and firms to seize the opportunity of remote working. From a policy perspective, it is therefore important to use a place-based perspective to account for the specific opportunities and constraints that different types of regions face.

The full and original article first appeared on VoxEU [here](#) on 15th July

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Covid-19 will accelerate CBDC developments

The economic effects of the Covid-19 pandemic are leading to unprecedented recessions across the world. We hope the health impact of the pandemic will be temporary, but its economic impact may not be. Governments and central banks worldwide are fighting hard to limit the damage through massive provision of liquidity to financial and non-financial entities and distribution of various forms of fiscal support to people and businesses.

Yet, as public authorities respond to the crisis, they are encountering significant challenges. Often, the complexity of public funding programs raises uncertainty and slows down the speed at which businesses and citizens receive the money. In various countries, small and medium-sized enterprises express concern that relief payments are taking too long (OECD 2020). Failure to address these challenges aggravates the macroeconomic effects of the crisis and diminishes the ability to weather them. There is a risk that the persistence of these challenges could contribute to social upheaval.

Governments must find ways of getting money to people and businesses more rapidly. Some have noted that a general-purpose central bank digital currency (CBDC) could play a special role in this context (see below). The pandemic will likely accelerate CBDC developments, such as the 'digital dollar' discussed below, by amplifying calls to endorse its role and clearing the political way toward its introduction (Auer et al. 2020). Still, CBDC projects will take time to materialise, and other instruments will be needed in the meantime. Both issues are discussed below.

A key quote from the article:

Evoking Milton Friedman's incisive image of 'helicopter money', CBDC could be used during crises as way to deliver stimulus packages to households and businesses. This would be especially useful when businesses are at risk of closing because they run out of money, or if people lose jobs, or become ill, and also run out of money. An example is the recent proposal for a US House emergency Covid-19 stimulus bill, which referred to creating a 'digital dollar' to get stimulus payments to unbanked Americans. In practice, the US Treasury would make payments through direct deposits to recipient accounts (FedAccounts) held at Federal Reserve Banks (FRBs) or FRB-member banks through pass-through FedAccounts.

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