

**EMPLOYMENT SECTOR**  
— SOCIAL FINANCE PROGRAM —

# **Overindebtedness in Germany**

Oliver J. Haas

**Working Paper N°44**

International Labour Office  
Geneva



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International Labour Organisation, Geneva

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## Foreword

There are substantial social and private benefits associated with better access to financial services, especially in countries with inefficient and uncompetitive financial markets. This view presupposes that households and enterprises are fully informed of their debt absorption capacity and that they can manage it.

However, as statistics of over-indebtedness in high income countries show this is not generally the case, especially among young adults in many Western European countries there is a disturbing increase in private insolvency.

For this reason the Governing Body of the ILO mandated the Office to establish a sound knowledge base about the links between over-indebtedness and its implications for the protection of wages.\*

The present overview by Oliver Haas of the iff (Hamburg) is part of a series of country case studies undertaken in response to this mandate. The goal is to identify areas for improvement in consumer protection and entry points for advisory and counselling services by social partner organizations.

Bernd Balkenhol  
EMP/SFP

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\* [www.ilo.org/public/english/standards/relm/gb/docs/gb294/pdf/esp-3.pdf](http://www.ilo.org/public/english/standards/relm/gb/docs/gb294/pdf/esp-3.pdf).



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## 1. Introduction and definitions

Over the last two decades overindebtedness has become one of the major social problems in Germany. It is estimated that every tenth household is overindebted, in absolute numbers 3.13 million households (2002). From 1994 to 2002 the number of overindebted households increased by 57%.<sup>1</sup> People with serious debt problems suffer from stress.<sup>2</sup> Overindebtedness is often a feature of the *working poor*, reinforcing socio-economic dependency, jeopardizing the employment situation and decreasing the perspectives for jobless people to get back into the labour market. Overindebtedness means social exclusion and increases vulnerability. For society it is associated with high and lasting welfare costs. It has negative macroeconomic consequences because outstanding debts will not be amortized<sup>3</sup>. Ultimately, overindebtedness undermines decent work and in particular wage protection.

Of course, taking on debt is a normal and constructive practice, as it opens opportunities for education and enterprise activities. Credits contracted in the first periods of life can usually be paid back later, when the individual enjoys a regular and stable income. However, this does not apply generally: job loss, business failure or illness, precarious contracts can lead to overindebtedness and weaken the protection of income. Decent work and income protection<sup>4</sup> are general aims of the ILO, the rising problem of overindebtedness is therefore a concern to ILO constituents, as it increases

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<sup>1</sup> Bundesregierung: Lebenslagen in Deutschland: Der 2. Armuts- und Reichtumsbericht der Bundesregierung (The Federal Government's 2nd Poverty and Wealth Report), (with calculations by the author)

<sup>2</sup> Korczak D.: Verschuldung macht Krank, Krankheit führt zur Verschuldung. Tagungsband Psychiatrisches Zentrum Nordbaden: Verschuldung und psychische Gesundheit, Wiesloh 2002, P. 15 – 27

<sup>3</sup> Financial intermediaries can calculate this risk. For small companies outstanding accounts often have bad consequences.

<sup>4</sup> Convention Concerning the Protection of Wages, 01.07.1949, International Labour Organization, Geneva 1949.

the burden for social partners. The Protection of Wages Convention of 1949, in particular is concerned by widespread and growing overindebtedness amongst salaried staff and workers. The ILO with its tripartite structure can therefore make an important contribution to identify and disseminate good practices in the prevention and mitigation of overindebtedness in an international context.

## **1.1 Clarification of concepts**

This report shows what constitutes overindebtedness, how it occurs and which category of households is frequently affected. Furthermore it will identify the different possible strategies to tackle overindebtedness. Based on this assessment future areas for innovative practices and partnerships will be identified.

Credit is an important financial service that helps to satisfy personal needs and cope with critical situations. Credit and access to credit are necessary, but credit means also debt and not every debtor can make good use of debt. Overindebtedness has multiple causes. This report focuses on income-related factors. Deteriorations in individual living conditions or a business crisis with job destruction can lead to income poverty. To explore this vicious circle and identify and separate cause and effect this report reviews the latest and partly unpublished research results in Germany.

Germany is the largest European credit market and its economic situation and financial markets have changed intensively over the last decades. Persistently high unemployment rates and the aggressive expansion of consumer credit led to a dramatic increase in overindebtedness. Government publishes (infrequently) reports on the subject.

‘The Federal Government's Poverty and Wealth Report’ which this paper will examine, together with reports on overindebtedness by the central credit registration



(“Schuldenreport - Schufa AG”). In addition we contacted seven major trade unions and selected corporate enterprises with a questionnaire sent to explore how social partners currently deal with the issue of overindebtedness.

The OECD definition of *relative poverty* sets the poverty line at 60% of the average income in the case of Germany this corresponds to €938. This definition leaves out non-financial aid by family or friends, welfare payments, benefits of subsistence economy and illegal earnings. Other surveys also use personal perceptions of the state of the household. In general the share of household income used to repay debts is not retained as a criterion for poverty. A report for the European Commission on income-poverty even fails to mention the debt status as a criterion of dependency.<sup>5</sup>

## **1.2 Indebtedness and overindebtedness**

Indebtedness is normal in everyday life. It means that a household or enterprise chooses to take on repayment obligations for financial resources obtained from a bank or another creditor. The use of a cell phone, renting a house or purchasing goods on outstanding accounts, all transactions create debt. Credit cards, for example, are primarily a mode of payment and a short-term debt without interest, but they easily transform into consumer credits with high interest rates. This differentiation matters for household insolvency, because the legal consequences are different.<sup>6</sup>

Overindebtedness of households means the impossibility to repay all debts fully and on time. Whether and when it occurs is a function of current and future

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<sup>5</sup> Lemmi, A. et. al.: Regional Indicators to Reflect Social Exclusion and Poverty, European Commission - Employment and Social Affairs DG, Brussels and Sienna 2003

<sup>6</sup> Korcak, D.: Definitionen der Verschuldung und Ueberschuldung im europäischen Raum, Literaturrecherche im Auftrag des Bundesministeriums für Familie, Senioren, Frauen und Jugend, München 2003, P. 17

income and assets as well as design features of the loan contract (interest rate, fees, repayment schedule).

### 1.3 Legal and socio-economic definitions

The Federal Ministry for Family Affairs, Senior Citizens, Women and Youth defines in its *2nd Poverty and Wealth Report* overindebtedness as follows:

*“A household is regarded to be overindebted when its income, in spite of a reduction of the living standard, is insufficient to discharge all payment obligations over a longer period of time”.*<sup>7</sup>

This concept is similar to the definition of the German Insolvency Code: *The current or future impossibility to amortise the debts on schedule.*<sup>8</sup> Difficulties in repayment (illiquidity) lead to a notice of cancellation of the credit agreement. The German Civil Code (Bürgerliches Gesetzbuch, BGB) empowers the creditor to do so after two instalments overdue. While the debtor may have been in financial difficulties for a long time (‘hidden overindebtedness’), it is the cancellation of the credit agreement that constitutes formally the status of overindebtedness. The debtor is now in debt for the entire amount of outstanding credit(s), possibly leading to subsequent (wage-) attachments.

*“As a social phenomenon, consumer overindebtedness is a situation in which consumers will definitely not be able to meet their financial obligations in the near future. It is defined by an overall deterioration of their and their dependants' economic situation and will gradually lead to social exclusion,*

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<sup>7</sup> Bundesregierung: Lebenslagen in Deutschland: Der 2. Armuts- und Reichtumsbericht der Bundesregierung (The Federal Government's 2nd Poverty and Wealth Report), P. XXVI

<sup>8</sup> Insolvenzordnung (InsO) § 17, § 18 (translated by the author)

*higher cost of living ("the poor pay more") and less participation in overall economic development and social progress."*<sup>9</sup>

This definition emphasizes the links between poverty status, critical indebtedness and the costs and quality of financial services.<sup>10</sup> This implication is: The weaker the consumer, the more expensive the financial services. This leads to a further deterioration in the financial standing and reproduces poverty and social exclusion, for two reasons:

1. with increasing debt levels a person is more exposed to an individual risk of default. This risk is magnified in low income groups and those in precarious employment situations. The creditor anticipates the risk by charging a correspondingly higher risk premium (interest rates, insurance charges, etc.). The risk assessment by client segment leads to a situation where the rich pay hardly any risk premium and the poor much more for a comparable level of debt.
2. in environments with usury laws, this risk calculation can lead to market exclusion, because the risk costs and therefore the interest rate would be too high (Germany BGB 138). Lenders to "*subprime borrowers*" find ways to get around the usury law, for example by charging unnecessary insurance expenses (residual debt insurance). The effective interest rate can in these instances easily go up to 25 or 35% of the total credit.<sup>11</sup>

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<sup>9</sup> Reifner, U., Springeneer, H.: Private Überschuldung im internationalen Vergleich, in: Schuldenkompass 2004, Wiesbaden 2004, P. 165

<sup>10</sup> Caplovitz, D.: "The Poor Pay More": Consumer Practices of Low-Income Families" (1974) and "Consumers in Trouble: A Study of Debtors in Default" (1967)

<sup>11</sup> Reifner, U. et. all., Projekt 1132: Praxistest zur Restschuldversicherung für die Stiftung Warentest, Institute for Financial Services, Hamburg 2005, as yet unpublished (Field-test on the effective costs of the first consumer

This form of “market failure” exacerbates the dependence of the debtor on his creditors.

Overindebtedness can thus be seen as a process of gradual social exclusion caused by financial market failures and income poverty. As social exclusion gets worse, the prospects for income creation also diminish. To capture the dynamic features of the vicious circle in overindebtedness three states of social exclusion here been suggested:

1. *precarious financial situation (beginning overindebtedness): cumulation of debts, illiquidity, settlement through illegal employment, prostitution, illegal actions, etc.*
2. *visible overindebtedness: attachments of wages, outstanding accounts, cancelled credits, etc.*
3. *open overindebtedness: declaration of inability to pay, debt counselling, insolvency proceedings, etc.*<sup>12</sup>

#### **1.4 Towards a Dynamic Definition**

The downward spiral of overindebtedness leads to poverty and social exclusion, but what leads to overindebtedness? About 70% of the debts of overindebted people are bank credits,<sup>13</sup> banks clearly play a role in the process of indebtedness. However, inappropriate financial services are not the only reason for overindebtedness. In theory customers make rational financial decisions even when the market is not

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credit and the need of residual debt insurances - the maximum effective interest rate, including the costs for residual debt insurance, reached 25%).

Also: Haas, O.: Predatory Lending – a case study (Diploma), Hamburg 2004, in print (this report analyses the costs of successive combined consumer credits ex post – the maximum ex post interest rate, including the costs for residual debt insurance, reached ca. 35%).

<sup>12</sup> Korczak, D.: Definitionen der Verschuldung und Ueberschuldung im europäischen Raum. Literaturrecherche im Auftrag des Bundesministeriums für Familie, Senioren, Frauen und Jugend, München 2003, P. 26 (translated by the author).

<sup>13</sup> Reifner, U. et. al.: Ueberschuldungsprofile, Untersuchung für die SCHUFA, Hamburg 2005, unpublished.

totally transparent; they generally avoid taking loans from *loan sharks*. However, information asymmetry is tilted against the client and it is the lender that is usually better informed. In Germany, a *central registration and credit rating agency* (Schufa Holding AG) provides information about the debt status and credit histories of debtors. Financial intermediaries use *scoring methods* combining individual and statistical risks to evaluate the probability of a credit failure, and price credits taking into account higher risks. Credit decisions and administration are centralized into “credit factories”. The standardization and simplification of products in retail banking enables financial intermediaries to make profits even in a formerly less attractive market segment.

Overindebtedness usually affects low income brackets of the population like the unemployed and people vulnerable because of other lifetime events. Income policies, risk diversification and financial education can help reduce the exposure to overindebtedness. Overindebtedness touches on central aspects of decent work, such as rights.

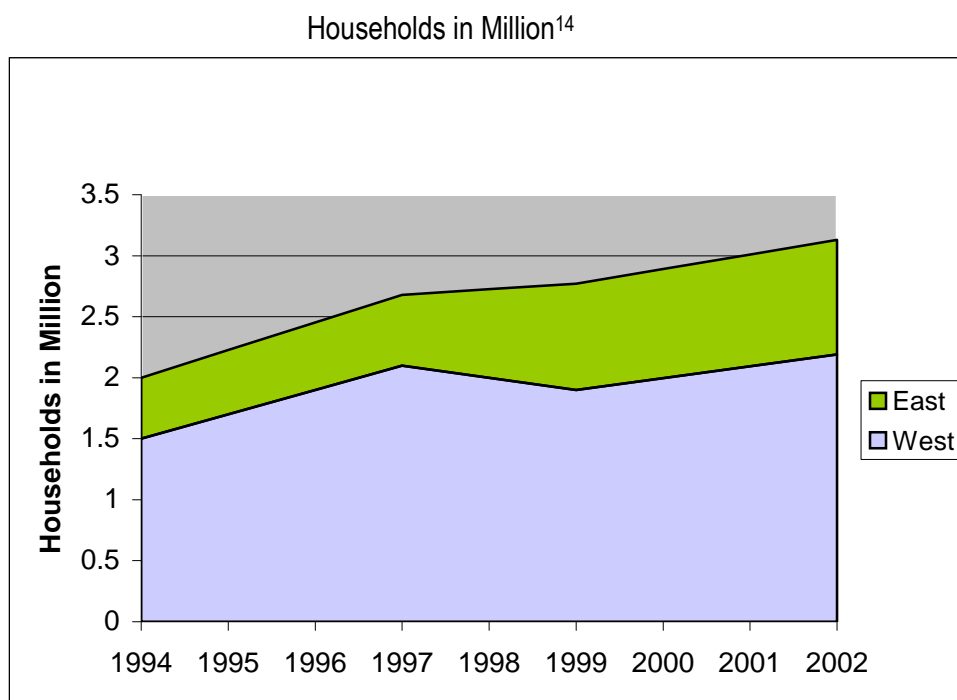
## **2. The extent of overindebtedness**

In Germany 3.13 million individuals were overindebted in 2002, according to a study by the GP Forschungsgruppe. This estimate is based on different indicators (declaration of inability to pay, information by the credit registration and different debt counselling agencies, etc.). The ZUMA Institute (Centre for Survey Research and Methodology) published similar figures in 2004. 8.1% of all German households are overindebted, 11.3% in the former East Germany including Berlin and 7.2% in the former West Germany.

Over the last decades overindebtedness has increased dramatically. In 1994 2 million people were considered overindebted. In the subsequent eight years the number increased by ca. 57%, with the average annual expansion rate of 5.75%.

	1994	1997	1999	2002
East	0.5	0.58	0.87	0.94
West	1.5	2.1	1.9	2.19
Total	2	2.68	2.77	3.13

Table 1. Overindebtedness in Germany (in millions of individuals)



Graph 1. Overindebtedness in Germany: development over time<sup>15</sup>

About 70% of all debts are owed to banks and other lenders 42% to enterprises, 42% to public administrations and 27% to telecommunication companies.

<sup>14</sup> Ueberschuldung privater Haushalte – Eine Information nach Stichworten, Federal Ministry for Family Affairs, Senior Citizen, Women and Youth, Berlin 2004

<sup>15</sup> Compare footnote 18. With interpolation.

The German welfare state is currently being a profoundly transformed leading to massive cuts in welfare spending.<sup>16</sup> While the proportion of the *permanent poor* has remained unchanged, *short-term income poverty* has grown. This can be the result of unemployment or income precarity during periods of education, retraining or business creation, often in combination with incidents like divorce or separation, death of a relative and illness.

The poverty risk in Germany used to be relatively low in 1995 with 12.1% compared to the European average (average 15%).<sup>17</sup> It decreased slightly to 11% by 2001<sup>18</sup> before it rose to 15% in 2005 (16% is the EU-25 average).<sup>19</sup> This increase over the last four years is attributed to the labour market, low economic growth (lower than the EU average since 2000<sup>20</sup>) and the downsizing of unemployment benefits after one year of joblessness (so-called *unemployment benefit II*).

The 2001 OECD report “*When Money is Tight: Poverty Dynamics in OECD Countries*” establishes the link between poverty and unemployment. The average duration of income-poverty is 1.7 years in Germany (2.0 years in the EU15). 4.3% stay permanently poor (“always-poor”), however most people are just income-poor for a while: 48.6% for less than one year, 29.2% for less than two years and 22.2% for more than three years. 41.1% of income-poor exit this state in a given year.

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<sup>16</sup> Bundesregierung: Grundlagen der Agenda 2010, <http://www.bundesregierung.de/artikel-413.710041/Grundideen-der-Agenda-2010.htm>, 15.10.2005

<sup>17</sup> When Money is Tight: Poverty Dynamics in OECD Countries, Chapter 2, OECD 2001, P. 39

<sup>18</sup> Bundesregierung: Lebenslagen in Deutschland: Der 2. Armuts- und Reichtumsbericht der Bundesregierung (The Federal Government's 2nd Poverty and Wealth Report), P. XX

<sup>19</sup> Guio, A.-C.: Income Poverty and Social Exclusion in the EU25, Statistics in Focus, Eurostat, 13/2005, P. 2

<sup>20</sup> BDA (Bund der Arbeitgeberverbände), Wirtschaftswachstum in Deutschland, in der Eurozone und in den USA, Berlin 2004, P. 1-2.



The ILO unemployment rate<sup>21</sup> for Germany was 9.3% in August 2005.<sup>22</sup> Since 2004 those who have been unemployed for more than one year receive reduced benefits, on average 55% under the poverty line as defined by the European Commission.<sup>23</sup> By the official German definition 4.728 million unemployed have been registered in August 2005, which is 11.4% of all those employable.<sup>24</sup> “Unemployed” in this context denotes a person working less than 15 hours a week and registered as unemployed. To this would have to be added the hidden reserve of people who would like to work<sup>25</sup> and have no employment but are not registered as unemployed. This is estimated to be 2.6 million.<sup>26</sup> The total comprehensive figure of the unemployed would then be over 6,800,000.

Overall the average length of unemployment was 38.1 weeks in 2004 (plus 0.5 weeks in 2004).

The structural change of the German labour market continues. In 2004 8.18 million people registered as unemployed. Average times of employment shorten, job-changes become more common and full-time employment continually decrease (1.3% less in 2004) whereas the number of part-time and so-called *Mini Jobs*<sup>27</sup> increase

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<sup>21</sup> <http://www.ilo.org/public/english/bureau/stat/download/res/ecacpop.pdf> and <http://www.ilo.org/public/english/bureau/stat/download/res/underemp.pdf>.

By the ILO definition everyone is employed that actively takes part in the production of goods and services for at least one hour per week.

<sup>22</sup> <http://www.destatis.de/basis/e/erwerb/erwerbt.txt>, 27.09.05: The unemployment data available here are obtained from the telephone survey on the "labour market in Germany".

<sup>23</sup> Springeneer, H.: *Schuldenreport 2005*, Berlin 2005, unpublished

<sup>24</sup> Statistisches Bundesamt, [www.destatis.de](http://www.destatis.de), 27.09.05

<sup>25</sup> Like people on job-training measures, women staying at home and people in early retirement because of the general bad job situation, etc.

<sup>26</sup> <http://www.sozialpolitik-aktuell.de/datensammlung/4/ab/abbIV34.pdf>, 27.09.2005; In 2005 the registration changed and former welfare recipients that are employable are now registered as unemployed. They now receive the *unemployment benefit II*. Therefore the number of registered unemployed suddenly increased by 0.5 million.

<sup>27</sup> SGB 4 § 20, Version of the 24.07.2003

substantially (additional 480.000 in 2004, now 4.8 million). The self-employment sector is increasing, too. The “*Ich-AG*”<sup>28</sup> (subsidised self-employment for unemployed people) comprised (268,000 creations of micro enterprises since 2003. There are now 4.23 million self-employed.<sup>29</sup>

Ease in the access to credit is an important factor for economic growth, contributing to economic well-being. Debt is part of daily life in a consumer society. Debt is a common instrument used to maintain a stable level of consumption, compatible with its lifetime resources, over different stages of the individual or family's lifecycle.”<sup>30</sup> The early periods of education and founding of a household lead to a demand for credit, which can be compensated for in subsequent periods, when earnings exceed expenditure. This intertemporal exchange of income and debt has recently become more pronounced with the rising costs of education. This leads to an increase in the credit demand, while the probability of job loss increases simultaneously. People have become more vulnerable in a credit society.

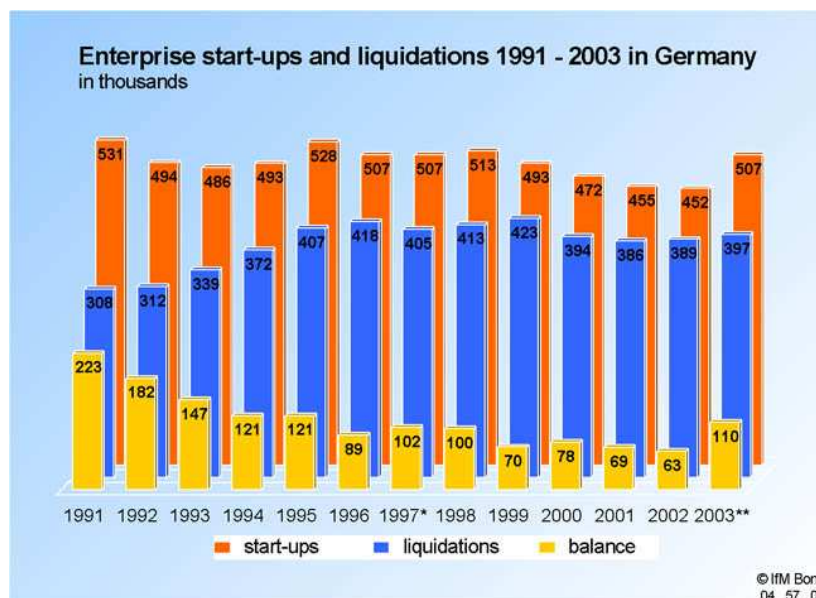
This affects in particular individuals whose household and enterprise finances tend to be indistinguishable. Bankruptcy of SMEs leads often to personal overindebtedness of the entrepreneur. For every 10,000 enterprises 135 became insolvent in 2004. It is true, in market economy market entries and market exits are normal. Not every market exit is caused by bankruptcy (insolvency). However, there are high social costs associated to it, as in 2004, 76.100 formerly self-employed persons went to court to seek debt-forgiveness.

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<sup>28</sup> SGB 3 § 421 Version of the 19.11.2004

<sup>29</sup> Arbeitsmarkt 2004, Amtliche Nachrichten der Bundesagentur für Arbeit, 53. Jahrgang, Nürnberg 08/2005

<sup>30</sup> Betti, G., Dourmashkin, N., Cristina Rossi, M., Verma, V., Yin, Y.: Study of the problem of Consumer Indebtedness: Statistical Aspects, produced by OCR Macro for DG Health & Consumer Protection, European Commission, London 2001, P. 1



Graph 2. Enterprise start-ups and liquidations 1999 – 2003 in Germany

Source: IfM Bonn

### 3. Household profiles

Social factors	Personal factors
Job loss and durable unemployment	Insufficient financial literacy
Business failures	Excessive consumption
Income-poverty / working Poor	Inappropriate financial services
Separation or divorce	Addiction
Illness	

Table 2. Structural and personal causes of overindebtedness

The analysis of empirical data by the GP Forschungsgruppe indicates that the structural reasons are mostly to be accounted for overindebtedness, as job loss. The study combined statistical data from the Social Economic Panel (Sop), client data provided by debt counselling agencies and information from the central credit registration (Schufa Holding AG).

	<b>West Germany</b>	<b>New Länder</b>
Unemployment	23%	46%
Working poor / income-poorness	8%	29%
Separation / divorce	23%	19%
Business failure	20%	16%
Excessive consumption/ uneconomic housekeeping	21%	27%
Illness, accident, death	13%	6%
Insufficient Financial Awareness	5%	1%
Collapsed Mortgaging	5%	3%
Surety Due	4%	0%
Addiction	2%	4%
Foundation of a Family / Household	1%	0%

Table 3: Causes for Overindebtedness.<sup>31</sup>

The data cover the entire population of over indebted persons. To complement the findings, the Institute for Financial Services (2005) examined a smaller group of over indebted individuals who received debt counselling. The data is drawn from debt counselling software (Cawin), the information of the central credit registration (Schufa) and the *Sop data* (Socio-Economic Panel)<sup>32</sup>. According to this IFF research, overindebtedness in most cases is a consequence of income-poverty. Most cases of overindebtedness involve consumer credits. 93% of overindebted households reviewed were already tied up in insolvency proceedings. In 2004 about 33,000 over indebted households registered themselves insolvent, i.e. approximately 1% of the 3.13 million people over indebted. An over indebted person has to wait on average between six and

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<sup>31</sup> Springeneer, H.: *Schuldenreport 2005*, Berlin 2005, unpublished: Excessive consumption and uneconomic housekeeping is listed separately in the original source. This differentiation however is only founded in different language use in former East and West Germany and is not clearly defined.

<sup>32</sup> <http://www.diw.de/english/sop/>

ten months. This suggests that debt counselling agencies do not succeed much in preventing overindebtedness. 2.7% of all questioned were under wage-attachments, meaning that the debtor benefits from a moratorium. In only 7.4% of cases there were earnings left that could be used for attachment.

59.7% of all surveyed individuals had monthly incomes of less than € 750 and 81.2% less than € 1.000. The current official poverty line in Germany is € 938. This indicates that even without any debts those households would have serious financial difficulties. Insolvency is therefore in most cases triggered by the combination of an already precarious income and debt situation. As for the reasons for overindebtedness, 48% mentioned job loss, income-poverty (26%), separation / divorce (25%) and 16% business failure.

Single households are more over-represented in the over indebted population (48.3%) than their proportion in society (36.7%). Single-parent families were four times overrepresented. Couples without children (27.3% of society) were strongly underrepresented (11.7% of all those over indebted). Couples without children and with double incomes are hardly over indebted. About 40% of all over indebted people had no intact family structure.<sup>33</sup>

#### **4. Prevention and debt counselling: possible entry points**

The worst outcome of uncontrolled overindebtedness is that the debtor loses the ability to earn a sufficient income because of social exclusion from the work environment, banking and other financial connections. At the same time the creditor's outstanding accounts will never be fully settled and the society has to pay for the

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<sup>33</sup> Reifner, U., Laatz, W., Cantow, M.: Ueberschuldungsprofile, unpublished, Hamburg 2005

rehabilitation of the over indebted. Debt adjustment can help strike a balance between the interests of the debtors, the creditors and the general public. It is an effective intervention and intermediation at a critical moment.

There is public interest to prevent and mitigate overindebtedness. The effects of overindebtedness are detrimental to employers, who are burdened with the deterioration of the work quality of over indebted employees. For employers, attachment of wages is time-consuming and entails substantial transaction costs. The over indebted normally have several debtors and organising repayment is a challenge.

Once the stage of wage attachments is reached over indebted employees end up usually being fired.<sup>34</sup> Wage attachments should not, strictly speaking, be a reason for dismissal or a barrier for engagement, but in reality they are. The over indebted are stigmatised. Potential employers regard wage attachments as an indicator for an unbalanced way of living. The over indebted tend to conceal the truth about current wage attachments in job interviews which can lead to dismissal in certain professions, if it becomes known. For the over indebted unemployed the alternate is to self-employment. However, many start-ups fail.

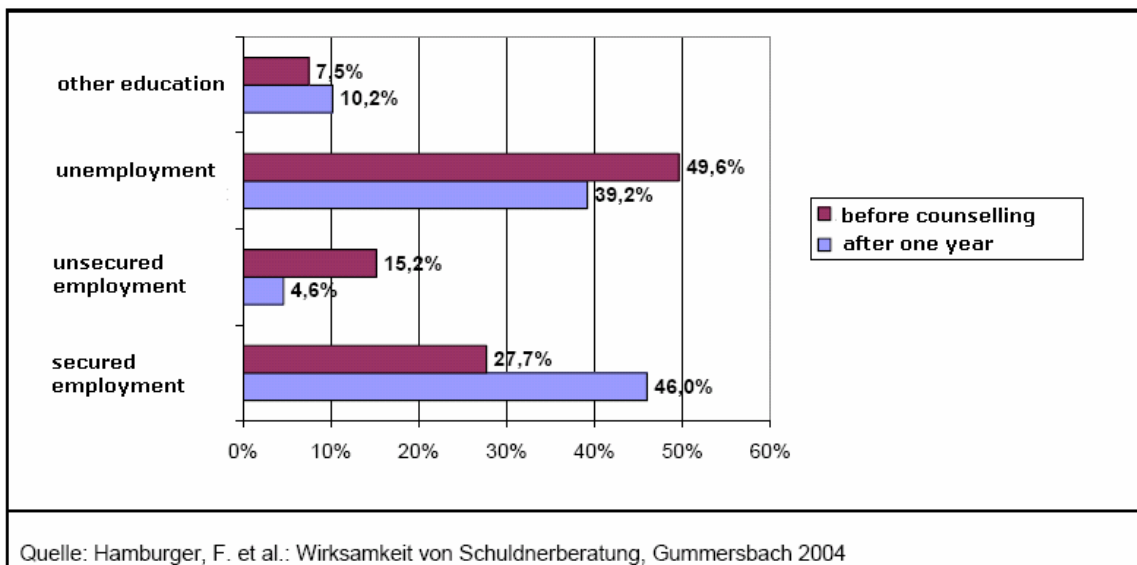
The problem is recognized by the social partner organizations. Some larger companies and employers' federations offer debt counselling (often in cooperation with a professional debt counselling institute) to their employees or to small and medium - sized enterprises, as SMEs are likely to be unable to provide such services. Trade unions see overindebtedness as a social and political issue. By bargaining salaries and job-security, their actions indirectly also affect the conditions for the risks of

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<sup>34</sup> Information is taken from an interview with a manager from a large wage accounting software producer.

overindebtedness. On the other hand, debt counselling is not (yet) acknowledged as a task for unions.

Overindebtedness affects wage earners and others in employment through wage attachments. It creates an additional burden on the employer.<sup>35</sup> The Federal Government's 2nd Poverty and Wealth Report presents debt counselling as clearly beneficial for both social partners. Debt counselling can help to stabilize the incomes of the over indebted and helps them find employment again. After one year of debt counselling the number of unemployed clients was reduced from 49.6% to 39.2%. The number of clients that achieved secured employment increased from 12.7% to 46%. Employers also profit from debt counselling (better quality of work, higher motivation of employees, less administrative hassle).<sup>36</sup>



Graph 3. Effects of debt counselling on employment

<sup>35</sup> Stark, M.: Statement zu den Ergebnissen des SCHUFA-Schuldenkompasses, Wiesbaden 2003, P. 1-2 (translated by the author).

<sup>36</sup> Bundesregierung: Lebenslagen in Deutschland: Der 2. Armuts- und Reichtumsbericht der Bundesregierung (The Federal Government's 2nd Poverty and Wealth Report), P. 44



Prevention of overindebtedness has long-term structural benefits such as the reduction of old-age-poverty and public spending on welfare benefits. The demand for debt counselling is strong and existing facilities are insufficient to meet the needs.<sup>37</sup>

While credit is necessary for enterprises and self-employment, not everyone will succeed and circumstances can lead to overindebtedness, also in a recently created microenterprise. Credit society makes people more vulnerable and the promotion of decent and productive work should take this into account.

Overindebtedness runs contrary to the primary goals of the ILO. Overindebtedness is detrimental to employment, social protection and social dialogue. It reduces the possibility to generate decent incomes. Those that are affected cannot get into employment again because of the stigmatisation of wage attachments. The loss of a checking account is another result of overindebtedness. The employed over indebted are at a higher risk of losing their job.

This is in line with the ILO's aim of wage protection. To mitigate the adverse effects of overindebtedness means to help individuals at the right moment to the right extent. The social partner organization can help prevent and mitigate overindebtedness, available facilities for counselling and prevention are insufficient. There is a need for an effective approach, at the right place (income-orientation) and at the right time (income-reduction).

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<sup>37</sup> The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. Decent work, International Labour Conference, 87<sup>th</sup> Session 1999, Report of the Director-General, Geneva 1999, p. 2

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