On the Need for Financial Epidemiology

Donald D. Hackney, School of Business Administration, Gonzaga University, Spokane, WA, USA
Daniel L. Friesner, Department of Pharmacy Practice, North Dakota State University, Fargo, ND, USA
Matthew Q. McPherson, School of Business Administration, Gonzaga University, Spokane, WA, USA

ABSTRACT

As economic conditions decline, U.S. households continue to be pushed towards the brink of financial insolvency. Unfortunately, current legal and market protection policies are largely ex post, and do little to alleviate financial distress until after insolvency occurs. This paper argues that such policies are inherently flawed. Instead, policies should be designed using an ecological approach to household decision making, and interventions based on those policies should be primarily preventive in nature. Household financial conditions must be closely monitored at the individual, community and population levels using rigorous empirical methods by organizations that have a vested interest in preserving household financial stability. Overall, these ends can be met by adapting epidemiological, and more broadly public health, frameworks into the current legal and market protection initiatives.

Keywords: Consumer Bankruptcies, Economy, Financial Stress, Household Finances, United States

INTRODUCTION

Much has been made in the recent legal and financial literatures about the dramatic rise in U.S. consumer bankruptcies. Articles in the academic and popular medias suggest that this rise is attributable to two factors: a declining economy (which increases unemployment and un-insurance rates) and an increase in the prevalence of unexpected medical care which individuals (even those with reasonable health insurance coverage) are unable to pay (Agarwal & Liu, 2003; White, 2007a, 2007b; Agarwal, Skiba, & Tobacman, 2009; Hackney, McPherson, & Friesner, 2010a, 2010b). One or both conditions gradually reduce consumer assets and increase both expenses and liabilities until the household becomes insolvent and files for bankruptcy protection. The special case where outstanding medical bills drive the insolvency is known as “medical bankruptcy”.

Individuals who file for personal bankruptcy protection transfer a substantial legal, financial and ethical burden upon the remainder of society. The legal burden occurs because the
bankruptcy process erodes property rights and the enforcement of contracts (Waller, 2001). Financial burdens are substantial because in many cases (especially if the case where a debtor files under Chapter 7 of the bankruptcy code) creditors are unable to collect more than a small fraction of outstanding debt (White, 2007a, 2007b). At least a portion of these costs are passed on to the remainder of society as higher prices. Sociological burdens are high because most individuals place a very negative stigma upon the bankruptcy process (Sullivan, Warren, & Westbrook, 1997, 2003). In many cases, debtors wait until the last possible moment to file for bankruptcy protection in order to avoid this stigma. This not only creates considerable stress and tension within the debtor’s family unit, but also disproportionally magnifies the amount of the debt being discharged in the bankruptcy process.

An obvious solution to this problem is to develop a viable policy intervention that can be implemented in advance of the need for bankruptcy protection. Indeed, this was the idea behind consumer credit counseling, although this policy option has failed for a myriad of reasons, many of which are similar to the detriments of bankruptcy (i.e., it is initiated by consumers and thus delayed until it is not a viable option, it has a very negative set of consequences, including social stigma, and it has been abused by for-profit companies who take advantage of an already distressed and vulnerable population) (Loonin & Plunkett, 2003; Vohwinkle, 2011). For any viable policy option to be pursued in a meaningful fashion, it must first implement a mechanism to identify individuals and/or households on a course for bankruptcy and offer (or possibly impose upon) them a viable alternative that does not carry negative social stigmas. To do so, one must develop a way to systematically assess and track consumer behavior (in a manner that is resistant to distortion by creditors and lenders) and identify a “tipping point” at which the debtor begins an un-reversible path towards insolvency. Policies must be implemented prior to this “tipping point” to minimize the negative impacts of consumer insolvency upon the remainder of society. Moreover, a tipping point must be based as much on actual consumption patterns as it is a debtor’s potential for future consumption; that is, a credit score rating (Agarwal & Liu, 2003; Agarwal, Amromin, Ben-David, Chomsisengphet, & Evanoff, 2010). Indeed, the use of credit scores as a proxy is often what allows individuals with medium and high incomes to postpone debt reconciliation and creditor repayment.

The purpose of this paper is threefold. First, it presents a brief discussion highlighting some of the major reasons that current policies (including bankruptcy laws) fail to appropriately prevent or reduce consumer financial distress. Second, we argue that virtually any consumer distress policy is doomed to fail because mainstream economists and other policymakers have yet to analyze the determinants of bankruptcy from a comprehensive, ecological perspective. In fact, the sociological, institutional and anthropological underpinnings of consumer spending (and the financing of that spending) suggest that consumer debt is susceptible to contagion, and can potentially propagate consistently with certain types of communicable diseases. Third, we argue that the tools for such analyses already exist, and can be adapted to identify such tipping points. More specifically, the fields of health promotion and epidemiology (often more broadly included in the field of public health) have developed tools to accurately, precisely and parsimoniously track the prevalence, incidence and deaths arising from infectious diseases for more than fifty years. Public health researchers have used these models as a basis to develop simple (survey-based) assessment tools, which can be used to assess risk of negative consequences, even at an individual level, which can then be offset by an appropriate intervention. Cumulatively, applying public health monitoring tools and policy interventions within the context of consumer financial distress leads to both the creation of a new academic sub-literature with ecological underpinnings – that
On Value and Price of Environmental Resources
(2014). *Sustainability Science for Social, Economic, and Environmental Development* (pp. 24-32).
www.igi-global.com/chapter/on-value-and-price-of-environmental-resources/101564?camid=4v1a

The Role of Marketing Strategies in Modern Business and Society
www.igi-global.com/chapter/the-role-of-marketing-strategies-in-modern-business-and-society/129252?camid=4v1a