The 'House of Debt' is certainly an important book which deals with the mortgage debt crisis in USA during the last decade. Unlike usual economic tomes, the book is only 300 pages long, but covers substantial ground. In this book, the authors Atif Mian and Amir Sufi who are considered leading experts on the problems created by the debt overhang in the USA , not only delineate how this 'Great Recession' happened, but also suggests steps that could be taken in future to avoid similar disasters.

The US witnessed a dramatic rise in household debt between 2000 and 2007, i.e. the total amount doubled in these seven years to US $ 14 trillion, while the household debt-to-income ratio rose from 1.4 to 2.1. The authors point out that the only other period that this kind of dramatic rise in household debt occurred in USA, was during the initial years of the Great Depression in the 1930s. The other significant similarity in the two cases, the authors point out, is that both the periods witnessed a large drop in household savings.

The authors’ research findings conclude that the growth in household debt is one of the best predictors of the decline in household spending during recessions. According to the authors, “both the international and US evidence reveals a strong pattern: Economic disasters are almost always preceded by a large increase in household debt”.

When looking for reasons triggering serious recessions, a common alternate view is the 'fundamentals' view - recessions are caused by some fundamental shock to the economy: a natural disaster; a political coup, or a change in expectations of growth in the future. The authors debunk this view.

As rapid increase in household debt do generate severe recessions, the authors come to the conclusion that households need a sense of security that they are protected against unforeseen events, and a fundamental purpose of financial markets is to help people in the economy share risk. Further, a financial system that thrives on the massive use of debt by households does exactly the opposite – it concentrates risk squarely on the debtor. For example, when house prices collapse, it is the house owner who suffers massive losses, while the lender is usually able to recover all or most of the loans.

The authors provide an example of a home owner who buys a home worth $100,000 using an $80,000 mortgage, with the home owner's equity being $20,000. Now if house prices drop 20%, the home owner loses $20,000, i.e. his full investment, while the mortgage lender escapes unscathed. The authors further argue that the mortgage lender actually represents savers, who are generally high net worth individuals. Therefore, the concentration of losses on debtors aggravates wealth inequality. The authors provide data to show that just before the recession, i.e. 2007, the poorest home owners were the most levered and the most exposed to the risks of the housing sector. The combination of high leverage, high exposure to housing, and little financial wealth would prove to be disastrous for the poorest households.

A commonly held view of the Great Recession is that the trigger point of the recession was the collapse of Lehman Brothers in September 2008. The authors argue that the collapse of spending by households was the trigger for the recession. Further, by analyzing the decline of consumption across counties in the US, they conclude that large net-worth-decline counties (on account of the decline in home prices) cut back on consumption much more than small net-worth-decline counties. Eventually, however, even counties that avoided the collapse in housing saw a decline in spending.

The above arguments are put together by the authors in what they call 'the levered losses framework.' When debt concentrates losses on indebted households, they cut down on spending. The decline in spending is aggravated by the fact that it is the poorest households that have the highest marginal propensity to consume.