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Elif Karacimen

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Elif Karacimen

Recep Tayyip Erdogan University, Rize, Turkey

Abstract

This paper examines the dynamics behind the rise in household indebtedness across different countries as a part of financialisation of household income over the last few decades. It argues that the current rise in consumer credit and household debt is historically unique, especially regarding the socioeconomic conditions under which consumer credit operates. An accurate understanding of the phenomenon necessitates including a multidimensional analysis of the many transformations that capitalism has been undergoing such as transformations in the welfare systems, changes in labour markets and developments in the financial sector. In doing so, an emphasis should be put on differences within and across countries and how the rise in household debt and the financialisation of household income have occurred in various ways.

Key words: household debt, financialisation of personal income, consumer credit, political economy

Journal of Economic Literature classification codes: D11, G20, P16, R2

Contact details: elifkaracimen@gmail.com

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1. Introduction

Over the last 40 years, consumer credit in its various forms has been at the heart of modern economies, though the practice of buying on credit is not a new phenomenon. Extension of credit to individuals has existed in various forms, from pawnshops to loan sharks to informal credit, since prehistoric times (Finlay, 2009). Since the mid-20th century, however, how credit is extended has significantly changed. The post-war period saw rapid expansion of bank credit to households, particularly in the United States, mainly for the purchase of houses and consumer durables. Since the 1970s, households have increasingly become involved in formal lending agreements in a number of different forms, and consumer credit has expanded at unprecedented levels in many advanced economies. Many developing countries have also followed suit, albeit starting from low levels. In this sense, the expansion of consumer credit has become an important aspect of financialisation in developed and developing countries. Certainly, the situation is variegated and differentiated within and across developed and developing countries. This paper will particularly focus on the case of developed countries.

One of the arguments of this paper is that, although credit has existed through history, the rise in consumer credit in the age of financialisation is historically unique. The differences in the current era are not only related to greater access to consumer debt, they are also related to the socioeconomic conditions under which credit operates. Analysing the socioeconomic conditions under which consumer credit operates is important as it helps to reveal the systemic reasons behind the rising demand and supply for credit. The purpose of this paper is to contribute to identifying the themes that can and ought to be explored with the household surveys on the connection between well-being and finance, as a part of the FESSUD project, and other empirical work.

The rest of the paper is organised as follows. The next section offers a theoretical examination of banking and consumer credit. It starts with a critical discussion of mainstream approaches to consumer credit and points out the necessity of examining consumer credit in socioeconomic and historical contexts by

accounting both for demand and supply side dynamics. Then the article focuses on financial sector developments and how this has led to increasing involvement of households in the financial system. The following section turns to an analysis of the systemic reasons for the rise of household debt in developed countries from the demand side. In this context it draws attention to the differences across countries and elaborates on how household indebtedness and asset acquisition have been encouraged in various ways in different countries.

2. A Critique of Mainstream Analyses of Consumer Credit

In mainstream economics, consumer credit is explained from a microeconomic perspective by taking utility-maximising behaviour as the starting point. This is an inadequate understanding of consumer credit. Household borrowing is perceived as optimal and normal (see Bertola et al., 2006) without paying enough attention to the specific social and historical circumstances under which it takes place. The permanent income and life cycle consumption hypotheses set the theoretical foundation of the neoclassical approach to consumer credit. These theories were developed in the 1950s when consumer debt was not a major issue (Scott, 2007). At that time, optimisation techniques were used to analyse consumer debt. In order to model consumer debt mathematically, several assumptions were made regarding individual behaviour, such as rational choice, perfect information, and well-defined and fixed preferences (Scott, 2007). According to this approach, individuals were assumed to be the only agents responsible for the problems that arose in the credit markets.

The central idea of the permanent income hypothesis developed by Milton Friedman (1957) is that people's consumption decisions are determined not by their current income but by their expectations regarding their future income. Thus, even large changes in current income would not have a big impact on current consumption decisions of individuals. A similar idea can also be found in the life cycle hypothesis which presents a linkage between consumption patterns of individuals and their income expectations. According to the hypothesis, individuals

smooth out fluctuations in consumption over their lives. They save when there is an unexpected increase in income or during their most productive working years and borrow when income is (temporarily) lower than expected on average.

Permanent income and life cycle consumption hypotheses were questioned when they proved to have flawed empirical implications; the findings presented little evidence for differences in savings according to changes in the income levels during a life cycle.[1] Considering the shortcomings in relation to the empirical evidence, the conventional models of consumption behaviour have been extended to include uncertainty and precautionary saving.

> The amounts borrowed may ... depend importantly on uncertainty as well as on the relationship between households' impatience and lifetime income patterns. Expanding the basic model to account for the role of uncertainty makes it possible to explain why young households, for instance, borrow less than one might expect, and why individuals in risky occupations (such as the self-employed) may wish to borrow less than those in occupations with highly reliable income streams (such as, in many countries, those in the public sector) (Bertola et al., 2006, p. 7).

Although life cycle models have been modified, they still emphasize the idea that consumers attempt an optimal pattern of consumption across their lifetimes (Cynamon & Fazzari, 2008). In this context, borrowing is in part seen as a response to temporary changes in income. When exposed to an adverse shock, utility-maximising individuals borrow in order to sustain marginally revised planned consumption. Hence, individuals who borrow today expect to improve their economic situation in the future. Such a line of reasoning is based on the assumption that "economic agents predict future states of the world—or at least that they understand the true probability distributions from which those states are drawn" (Cynamon & Fazzari, 2008, p. 1). However, in reality, choices are complex and

context-specific, so it is not reasonable to assume that they can be expressed in terms of mathematical formulations.

Apart from drawing attention to the importance of including precautionary behaviour and uncertainty with the recent rise in consumer debt and its related problems, there has been a rise in mainstream studies placing concepts of asymmetric information and market failures at the centre of their analyses of consumer credit.[2] The idea is that not only demand-side but also supply-side factors matter. It is argued that "lenders to consumption smoothing households face many of the same problems as lenders to producers" (Bertola et al., 2006, p. 12). Like credit offered to firms, credit offered to consumers is also restricted by moral hazard and adverse selection. In the consumer case, adverse selection might be due to:

> Standard project risk, since there may be entrepreneurial activity financed with "consumption" loans, and/or it could be due to employment or household instability (e.g., higher likelihood to incur shocks to job, marital, and health status), relatively poor access to family or community resources, or general dishonesty. (Karlan & Zinman, 2005, p. 18)

Again for consumer credit, the moral hazard problem related to the consumers' ability to pay off credit might be "the borrower's effort to retain or obtain employment, to tap alternative sources of cash in the event of a bad shock, or to manage consumption in order to retain sufficient funds for loan repayment" (Karlan & Zinman, 2005, p. 19). However, moral hazard might also arise due to the consumers' unwillingness to repay (Bertola et al., 2006). In that case, weighing the gains and losses, a borrower might decide to default on debt even though having the ability to repay (Bertola et al., 2006). Hence, there are several factors that lenders need to consider regarding credit repayment, which may lead them to restrict credit.

According to this line of reasoning, the life cycle model implies that individuals could smooth their lifetime consumption even when facing temporary

budget constraints, provided that they do not become credit-constrained. However, the potential problems of asymmetric information in the financial markets may lead to market failures such as credit rationing. Under these conditions, liquidity constraints prevent individuals from following an otherwise optimal plan of debt and consumption. In this respect, financial liberalisation over the past couple of decades has eased individual budgetary constraints and allowed individuals to smooth their consumption over their life cycle as the theory suggests.

> The financial liberalisation of the 1980s thus emerges as an explanation of both the rising household debt and the economic rationality of that rise: the increase in debt is consistent and cannot be considered excessive, being motivated by previously precluded utility maximising choices. In sum, according to this view, household indebtedness and the factors favourable to fostering its actual growth should be seen as sources of a maximum satisfaction of household needs and hence of the greatest possible advantage to society. (Barba & Pivetti, 2008: 119)

Along similar lines, technological developments in the last thirty years also contribute to the easing of credit constraints. According to the mainstream understanding, as new credit reporting technologies enable lenders to distinguish between good and bad borrowers, they decide to finance borrowers at different rates according to their predicted capacity and willingness to repay.

> If lenders can distinguish between borrowers, they finance those they identify as good risks at low interest rates and the bad ones at high interest rates. If new credit reporting technologies make distinguishing between good and bad credit risks easier at the micro level, credit should have become more accessible. (Cynamon & Fazzari, 2010: 8)

Such analyses of consumer credit lead to an understanding of the phenomenon as autonomous from broader social relations. Even if extensions to the theory acknowledge the social dimensions of consumer behaviour, they do so by sticking to the assumption of rational choice (see Fine & Milonakis, 2009). However, an accurate understanding of consumer behaviour needs to consider that preferences are socially constructed (Cynamon & Fazzari, 2010). The easy availability of credit cannot be seen simply as a relaxation of constraints on rational borrowers who want to borrow more based on their cost benefit calculations. One needs to consider, for instance, how the new institutional environment encourages people to borrow more as they observe that others borrow more. This has to do also with the transformation of the activities of the financial institutions and their increasing orientation towards individuals as a source of profit through selling them financial services. With the increasing availability of credit, consumption has increasingly been mediated through credit. As Cynamon and Fazzari (2010: 2) put it, "changing social norms made it seem *normal* to consume more (as opposed to *desirable* to spend more—which is always the case) as well as *normal* to borrow in order to finance that consumption (which was certainly not always the case)". The preferences of individuals are not only based on economic calculations of the self-interest of agents as the neoclassical theory puts forward.[3] In addition, it is questionable to assume that economic agents can or even do predict the future by assigning identifiable and measurable probabilities to (un)foreseeable outcomes.

The mainstream theory not only ignores the social content of consumer credit but also fails to account for the socioeconomic and historical contexts that condition borrowing decisions. Analysing the rise in household debt within specific socioeconomic and historical context enables us to see the sorts of indebtedness and the reasons for them. This approach also reveals the interactions between the structural transformations and changes in household indebtedness. Globally, the last three decades have witnessed neoliberal restructuring, that is, deregulation of financial and labour markets. In the meantime, financial markets have expanded and banking sector activities have been diversified. The period has also been

characterised by the transformation of the public welfare system. As the form of state intervention has changed, private provision has increasingly replaced public provision across a range of services such as housing, pensions, healthcare and education in the age of neoliberalism, and financial markets have increasingly been incorporated into the provision systems (Fine, 2009; Lebaron, 2010; Roberts, 2012). As the role of private sector has increased throughout this process, the room was created for an increasing role for finance. In this regard, in the last three decades, housing and pensions have become two notable examples of the financialisation of household income. The impact of the changes in public provision on household debt becomes clearer considering that the rise in household debt in many developed countries related to the rise in housing loans. Along with the encouragement of private homeownership, lending for housing has also increased. This certainly needs to be analysed with its impact on household wealth through asset acquisition. Taking into account the social and economic conditions under which the rise in household debt has occurred, it can be argued that in analysing the phenomenon one needs to take into account the changing landscapes of work, pay and social support systems (Montgomerie, 2009) and its impact on economic and social reproduction. In doing so, an emphasis should be put on how these developments and their impacts on households have taken place unevenly both across and within countries.

3. Contextualising the Rise of Household Debt

One of the key points highlighted in the financialisation literature is how the developments in the financial sector created room for the expansion of consumer credits and paved the way for integrating individuals into finance through changes in their saving and borrowing patterns. In relation to saving, households started to rely more on modern, specialised forms of savings such as bills, bonds and mutual funds rather than traditional forms of saving such as gold and bank deposits. In terms of borrowing, consumer loans, mortgages and credit cards emerged as key growth areas of access to credit and, as a result, borrowing from financial institutions has increased to unprecedented levels.

Easy availability of consumer credit as a result of the banking sectors' orientation towards personal lending has been an important phenomenon, contributing to the rise in household debt. Traditional banking activity encompasses taking deposits from customers and providing loans to enterprises. In this framework, the main income of the banking sector comes from the interest difference between deposits and loans. However, in the age of financialisation banks turned towards individual income as a source of profit (Dos Santos 2009; Lapavitsas, 2009), as a part of their business diversification. As such they have increasingly engaged in consumption, mortgage, and auto loans provision. Empirical evidence on the extension of consumer credit across a range of European countries is provided by a research covered by the FESSUD project (Santos and Teles, 2013). There have been several reasons for the changes in the banking sector activities and these are well documented in the literature.[4] Apart from structural reason such as the changing financing behaviour of corporations, innovations in the financial markets in the last few decades have been key to integrating broader segments of the society into the financial system. Together with developments in the new information technology and advances in risk management techniques, it has become easier for banks to obtain information about a greater number of prospective borrowers. Similarly, the increasing use of securitisation, especially in advanced countries, has enabled banks to generate further liquidity and provided means for extending consumer credit to larger numbers. With securitisation banks regularly bundled the debt from credit users and sold it to investors in the securitisation market (Dymski, 2009).[5] As asset-backed securitisation provided cheaper source of funding, it has become an important element of the extension of credit to broader segments of society.

Apart from changes in institutional structure of the financial markets, aggressive marketing strategies of financial institutions have also been instrumental in stimulating the rise in consumer credit and debt. For a time, financial institutions served the middle- and upper-income households because they had stable incomes. These were financially independent and sophisticated individuals who could easily

adapt to the new saving and borrowing patterns (Dymski, 2009). However, later on, finance in general and consumer credit in particular have become standardized and increasingly penetrated into the daily lives of those who were previously financially excluded. Throughout this process, aggressive marketing and advertising strategies of financial institutions have fostered the fast growth of credit cards, for instance. To encourage credit card usage, banks offered various rewards to customers such as loyalty points, flier miles, and instalment payment plans. These strategies worked to increase use of credit cards, as customers tended to spend more to be able to benefit more from these rewards, making credit cards an important source of profit for banks.

In relation to the demand side dynamics, much of the rise in household borrowing over the last three decades in developed countries had been attributed to the low interest rates and an easing of liquidity constraints (Debelle, 2004). The argument is that households simply react to the economic stimuli by increasing their demand for consumer credit. There is no doubt that the low level of interest rates played an important role in the remarkable rise in demand for consumer credit and increase in household debt in developed countries. Low interest rates have not just contributed to household debt through financing of consumption but also by stimulating investment in financial and non-financial assets by households both in the USA and Europe. Nevertheless an overemphasis on loose monetary policies neglects the deep-rooted reasons for the rise in household debt.

Critiques of mainstream accounts have argued that stagnant and declining real wages have been an important reason behind the extension of consumer credit especially to those lower income segments of society. The 1970s were characterised by stagnation on a global scale. In the post-World War II era, productivity growth and its accompanying high wages were channelled into increased consumption (Cleaver, 1995). There was then a severe decline in productivity growth starting in the mid-1970s. For example, productivity growth in the United States was reduced by 50% and remained very low until the 1990s (Glyn, 2007). Because productivity growth is the key source of an increase in living standards, its decline intensified the conflict

over the distribution of output (Glyn, 2007). The 1980s and 1990s witnessed the stagnation of wages which lowered the consumption aspirations of the masses. Based upon an analysis of the macroeconomic developments in the last three decades within a Marxist framework, it was suggested that with high profit and stagnant wages, contradiction between the conditions for creation of surplus value and those necessary for its realization was partly overcome through loosening access to consumer credit (see, for instance, Kotz, 2008). Demand was artificially raised to the level of supply by way of aggressive consumer credit expansion. Wage earners increasingly began to access to consumption goods through borrowing. Hence, consumer credit offered an easy solution to demand problems in advanced economies, particularly in the USA.

Along with stagnant and declining wages, the last few decades have also been characterised by rising income inequality in the USA and many European countries (OECD, 2011). Various studies in the financialisation literature have focused on the link between the rising income inequality and increasing levels of household debt in advanced countries (Barba and Pivetti, 2009; Fitoussi and Saraceno, 2010; Tridico, 2012). These studies emphasise that while income inequality increased in many countries, consumption inequality did not increase as much. The argument was that the rise in borrowing opportunities allowed low income households to sustain their consumption levels. The idea that private indebtedness was used to boost demand has often been put forward for the USA economy.

> the rising household debt is viewed as the outcome of persistent changes in income distribution and growing income inequalities. Through household debt, low wages appear to have been brought to coexist with relatively high levels of aggregate demand, thus providing the solution to the contradiction between the necessity of high and rising consumption levels, for the growth of the system's actual output, and a framework of antagonistic conditions of distribution which keeps within limits the real income of the vast majority of society. (Barba and Pivetti, 2009: 113)

These arguments were then criticised especially for the European countries on several grounds. One of the arguments is that in some countries (i.e. France and Italy) consumption, indeed stagnated and even declined in some others (i.e. Germany) from the mid-1990s till the late 2000s. Private indebtedness was presumably used for boosting demand in the UK, Spain, Greece and Ireland for instance but not in others (Hein, 2012). The differences across countries signify the importance of analysing the causes and consequences of the rise in consumer credit by considering the peculiarities of each country. In that sense, a comparison between different countries would be highly informative as it could reveal how household debt played different roles in different countries. In making such a comparison between the USA and several European countries, Crouch (2012), for instance, comments on the reasons for the low consumption expenditure and high household debt in northern European countries and high consumption expenditure and high household debt in Anglo-American economies. He argues that what the crisis revealed is that the unregulated financial markets and unsustainable levels of household debt played a role in Anglo-American economies in enabling workers with insecure jobs and static real wages to keep spending. As he acknowledges, based upon this, the expectation would be that in the UK and the USA, where household debt is seen as a tool to sustain household consumption in the face of uncertain labour markets, household debt levels would be the highest. Nevertheless, the evidence suggests that household debt levels indeed are highest in Northwest European countries (i.e. Denmark and Netherlands). Based upon these observations, Crouch (2012) abruptly suggests that micro-level data are needed to figure out the way household debt is being used in different countries.

> We know that in general higher income households are far more likely than the lower ones to maintain high levels of debt. This partly accounts for the differences among our groups of countries, as the northern European and Anglo-American countries have higher numbers of wealthy people within their

> populations. But this fact about the distribution of debt means that further research on the implications of debt for macro-economic behaviour requires micro-level research on who bears debt, and the purposes for which they use it. In general, we should expect poorer people to use debt for everyday consumption purposes, while wealthier people will use it for capital purchases. If high debt levels are associated with relatively low private consumption shares in some countries but high shares in others, we might expect that in the latter cases debt will be more widespread and not confined to wealthy groups only (Crouch, 2012: 406).

Indeed the evidence suggests that in the USA, for instance, where both household indebtedness and consumption growth is very high, debt is highly widespread among low income households (Baily et al., 2009; Barba and Pivetti, 2009).

Another criticism regarding the role of household debt in sustaining consumption is that in many developed countries the main trigger behind the remarkable increase in household loans is the rise in housing loans. By 2011, around 75% of total household debt for Euro area countries consisted of mortgages (Santos and Teles, 2013). Based upon these statistics related to the high share of borrowing for residential real estate, it has been suggested that it might not be reasonable to assume that consumption has been prompted by consumer credit. However, the point related to the housing loans is complicated as housing loans might be used for financing consumption in several ways. Many studies put forward that the use of mortgages is no longer only related to securing a residential estate:

> Indeed, shopping for mortgages for most of the twentieth century was about securing a large loan (as a lever into home-ownership) and gradually paying it off. For more than 20 years however, thanks to financial deregulation it has been possible – especially in the UK, Australia, Canada and the US – to use mortgage borrowings to finance non-housing consumption. (Cook et al., 2009: 134)

It has been suggested that the disaggregated data on household debt according to purpose severely underestimates the share of household debt used to finance consumption. This is because mortgage equity withdrawal (MEW), that is borrowing of consumers against the real value of their houses for purposes other than investing in the housing market, has increased its importance over the last few decades. In the USA, while the proportion of MEW to an average annual rate of disposable personal income was 1.4% from 1965 to 1979, it was 2.3% from 1980 to 1995 and 4.2% from 1995 to 2006 (Barba and Pivetti, 2009).[6] On another account, Baily et al. (2009) assert that from 2003 to the third quarter of 2008, the value equity that US households extracted from their homes, mainly in the form of equity loans and cash out of refinancing loans, amounted to $2.3 trillion. While 20% of this money was used to finance consumption, another 17% was used to pay down credit card debt and other liabilities, hence indirectly contributing to funding consumption. While the proportion of MEW has rapidly increased over the last years, also new types of more flexible mortgages were introduced that allowed homeowners to draw from housing wealth for non-housing consumption.

> And since the turn of the millennium, especially in the UK, a range of flexible features has been added to new mortgages allowing the process of securing debts against the home to occur more routinely: draw-down facilities allow consumers to borrow against their mortgage (up to an agreed limit) as well as, theoretically, to overpay to clear their loans sooner. As a result, mortgages are not only the means by which households obtain the leverage they need to invest in the housing market; they can also be a mechanism through which to draw from housing wealth to consolidate debts and meet a range of spending needs. (Cook et al., 2009: 134)

In sum, in addition to the rise in debt in the form of consumer loans and credit cards, the debt secured by residential estates also stimulated consumption. Home

equity started to play an increasing role in affecting how much credit households can get and how easier and cheaper they can access to credit (Aalbers, 2008). Along the process, mortgage markets have become an important indicator of the state of the economy. Further, meanings attributed to a house have significantly changed. Acquiring a home more often started to be seen "not just as a home, as a place to live, but as an investment, as something to put equity into and take equity from" (Aalbers, 2008: 151). Hence, a house began to be treated as a different type of financial asset than previously.

How these meanings around housing have changed is very much related not only to the developments in the financial systems of each country but also to the state policies in the neoliberal era, promoting private homeownership in various ways. Roberts (2012) gives an account of how under the administrations of Thatcher in the UK and Bush in the USA, working classes and minorities were targeted to be integrated into the market by extending homeownership as a right to those groups.

> Both Thatcher's programme (which encouraged the working-classes to purchase their flats in the council estates) and Bush's 'Homeownership Challenge' were thus intentionally designed to integrate previously marginalised sectors of the population into the market economy in ways that both provided new markets to exploit while simultaneously legitimising this exploitation. (Roberts, 2012: 25)

This tendency towards pushing for owner-occupancy in the context of neoliberal policies has been also prevalent in European countries, albeit with some differences across countries. These differences are related to several factors ranging over differences in welfare systems, housing tenures and customs. In the UK, for instance, the demise of social housing and the promotion of homeownership are often associated with a liberal welfare state while, in the Netherlands and Sweden, the prominence of public-funded housing is suggested to be an outcome of an expanded and universal welfare state (Van Gent, 2010). Diversities across

countries are also important in terms of how housing policies function in different countries. It has been suggested that in the UK the promotion of owner-occupancy allows governments to downsize welfare services such as social care and pensions.

> Policy makers and politicians promote ownership while emphasizing the benefits of unmortgaged housing equity as a financial buffer at a later age. The implication is that housing wealth may then be used to augment or replace welfare services such as pensions or health care. This also implies that residents will have to remortgage, over-mortgage or 'trade down' their dwelling to be able to use the equity. As a consequence, the asset gains from investment in housing may offer individual households a social security alternative to welfare state provisions. (Van Gent, 2010: 736)

While the promotion of owner-occupancy might be a tool for reducing the expenditure on public provision in the UK, such causality between changes in housing tenure and the decline in welfare provisions is hard to attribute to the situation in some other European countries. Examining the national housing memorandum and policy debates on housing in Netherlands, Van Gent (2010) asserts that there is no clear sign for an aim related to the promotion of owner-occupancy for securing individuals future in the Dutch housing policy, a situation which might be related to the relatively strong state of the Dutch pension system. In another case, Spain, although a family and asset-based welfare system is important, there are limits to how housing policies can be used for reforming the welfare state because of the affordability and accessibility issues (Van Gent, 2010).[7]

Hence it is Anglo-American countries where the encouragement of homeownership is more likely to be a part of a public policy to create an asset-based welfare system under which households are supposed to be financially independent and responsible agents, taking on risk over their future financial security (Finlayson, 2009). This emergence of such a risk-taking individual is a widely referred phenomenon in the financialisation literature. The strand of the literature that

focuses on the penetration of finance into daily life describes the process as "financialisation of everyday life" which finds its reflection in the increased exposure of individuals to financial risks (Langley, 2009; Martin, 2002). This process has been argued to produce instability in daily life, poorer understanding of the financial system and deeper segmentation within society. Overall, it is assumed to change the relationships of individuals with finance. It has been suggested that especially in Anglo-American countries, individuals started to act as savers and investors and evaluate the risks and awards related to their financial practices.

> This (framing everyday life increasingly as a space of investment yielding both financial and personal returns) not only makes material consumption more and more aspirational, but also positions the individual as an investor in a life project that requires the constant pursuit of opportunities and the negotiation of risks in order to yield rewards. With the growing calls for individuals to secure their own independence and autonomy not via the state but through financial markets, practices of investment, calculation, and speculation become associated less with financial distortion than with normalization and domestication and their embrace by ordinary individuals taken as a sign of personal initiative, self-management, and enterprise rather than moral or budgetary imprudence. (Allon, 2010: 367)

It has also been argued that encouragement towards an asset-based welfare system might indeed be preferred by households in countries such as the USA where there is low welfare provision. In different societies people might see "housing as a social right that should be provided by the state or community, or as a means to wealth, by which individuals and families can store and accumulate" (Seabrooke, 2010: 56). In discussing the differences among countries, Seabrooke (2010) explains variations among perceptions about housing by referring to a 'welfare trade-off' between a choice for receiving better welfare services, though still renting a house or storing or accumulating individual or familial wealth. Under certain

circumstances, taking risk to be able to accumulate wealth might be preferable against the alternative of paying rent, receiving insufficient welfare and ending up with no property (Seabrooke, 2010). After all, financialisation of household income is a gainful experience for some segments of the society both through providing easier access to credit and profit from asset acquisition. Privatisation of public housing and loose monetary policies enabled large numbers of low and middle income people to take on mortgages and own a house. Gathering micro data would make it possible to see who benefits from this process, to what extent, and the differences in perceptions of different groups towards financialisation of household income. This would also be helpful in revealing the contradictory ways in which financialisation of household income takes place. Consider, for example, financialisation of homeownership. As Aalbers (2008) states, expansion of mortgage market is likely to be beneficial for those who want to buy a house because it makes a house more accessible. But it has also paradoxical outcome because as a result of the rise in housing demand, a house also becomes more expensive. The rise in house prices might make people who own a property previously gainful while putting new buyers in a disadvantageous position.

> Financialization has resulted in an increase in the number of homeowners, but also, and more importantly, in a rapid and huge increase in the value of homes. It is not recent homeowners who benefit most, but those who have been property owners for decades. The financialization of home is of course the most beneficial for those who invested earlier and who were able to invest more: the 'upward pressure on house prices restricts access to homeownership and adds to the wealth of the "insiders" at the expense of the "outsiders"' (Stephens, 2007: 218). In more developed societies, most households see their capital grow more through homeownership than through any other form of personal capital accumulation. (Aalbers, 2008: 157)

It should be noted that such an increase in wealth is contingent upon capital gains in housing. Throughout the process there might be people who gain or lose from the financialisation of home. However, independent from who benefits and who loses, it might be suggested that this is a process which has increasingly tied the fate of individuals to the fluctuations in the financial markets, as demonstrated by the financial crisis triggered in the USA in 2007. This is especially true for housing since taking a housing loan is a long-term commitment and the ability of the borrower to repay is subject to changes over a long-term period.

Furthermore, there has been a growing emphasis on how household debt in general and mortgage debt in particular is closely linked to the privatisation of relations of social reproduction in the age of neoliberalism (Lebaron, 2010; Roberts, 2012). Social reproduction, in a broad sense, can be used to refer to daily, generational and biological reproduction. It is a process which among other things includes "how food, clothing, and shelter are made available for immediate consumption, the ways in which the care and socialization of children are provided, the care of the infirm and elderly, and the social organization of sexuality" (Laslett and Brenner, 1989: 383-4). There is the role of the state, civil society, and, particularly, households in the reproduction of labour power, and the contributions of each historically change (Fine, 1998). The changes in the role of state in the social reproduction along with the penetration of finance into everyday life have recently become a widely discussed phenomenon in the literature. Although he has not talked about social reproduction Crouch's (2009) argument, related to 'privatised Keynesianism' has become a widely cited phenomenon. According to this argument extended mortgages and consumer debt, as opposed to government expenditure, functioned as a form of 'privatised Keynesianism' through which government managed demand. Crouch (2009) asserts that in addition to the mortgage market's extraordinary growth, opportunities for bank loans and credit cards for low and middle income households were used by governments to stimulate the economy. Others claimed that restructuring of relations of social reproduction via the retrenchment of public welfare state provisions such as privatisation of housing,

health care, education services and so on are pivotal to understanding the rising levels of mortgage and other forms of debt (Lebaron, 2010; Roberts, 2012). The argument is that,through this privatisation of social reproduction, debt has become a way of financing basic needs for broader segments of the society. This process is also argued to widen dependence on financial markets.

In this context, many studies in the literature have suggested that, as indebtedness has become more widespread, new dimensions are added to the relations between capital and labour (Bryan et al., 2009). Workers have become more dependent on capital with the rise of indebtedness, while debt has restrained the chance to implement social, economic, and political power. As Bonefeld (1995) indicated in discussing debt in Britain in the 1980s and 1990s, personal debt creates opportunities for the imposition of discipline and control:

> Indeed, the politics of debt amounts to an attempt at disciplining social relations to monetary scarcity and a life of hard and unrewarding labour to sustain basic needs. The incentive not to endanger the bases of life, such as housing, education, health, clothing, heating, and so forth, helped to undermine resistance to wage reductions and the introduction of new working practices ... social resistance against a policy of state austerity was replaced by individualised struggles to maintain existing positions of employment, income and conditions. (69)

Although wage form as means of access to consumption already ties workers to hard work, rising debt levels and interest, that wage earners must pay on loans, increase the pressure on them. Barba and Pivetti (2009) argue that rising debt levels contributed to the persistence of low wages and labour costs in the USA. Further, it is highly likely that the burden of servicing debt forces workers to accept longer work hours and harder working conditions in many countries. The implications of indebtedness could be better grasped considering the socioeconomic context under which rise in consumer credit occurs. The current historical conjuncture has been

characterised by rising flexibility and insecurity in the labour market, phenomena affecting many wage earners. A crucial point would be discovering the link between labour market characteristics and the implications of financialisation of household income. It is well documented that the flexibility in labour markets in many European countries has been increased in the last three decades (Fitoussi and Saraceno, 2010). It has been argued that the flexibility in the labour market and the stagnation of real wages in the USA and Europe led to diminishing of the purchasing power of workers, which was then partly compensated by increasing borrowing opportunities (Tridico, 2012). Apart from such a link, it is also highly likely that job and income insecurity has increased the vulnerability of workers to debt.[8]

4. Further Research

The purpose of the current study was to discuss the dynamics behind the rising use of consumer credit and increasing levels of household debt across many countries in the age of financialisation. Under different socioeconomic conditions, consumer credit may be used for several reasons with various results. Therefore, an analysis of causes and implications of household debt should be carried out based upon data from different countries and subgroups of the population.

It is now well-established that debt is highly unequally distributed across society. Therefore aggregated data can only offer limited insights into the characteristics of indebtedness. An analysis of how debt is used differently across populations, who benefit from the penetration of finance into the daily life in general, and to what extent, and the differences in perceptions of different groups towards financialisation of household income, each require micro-level research.

Gathering survey data would be an important part of such research. Employing a quantitative method is, in general, helpful especially in discovering the descriptive statistics from the cases under consideration. Further in addition to gathering data about issues such as the nature of indebtedness, reasons behind it, survey can also address the material conditions of households and how they are perceived, as Fine (2013) suggests in his study of the material culture of

financialisation. The latter implies revealing "what (often unacknowledged and unrecognised as such) financialisation means to its subjects (or objects) and how those meanings are liable to be generated" (Fine, 2013). However, quantitative methods by itself may not be enough for such a task because the underlying realities can be masked or misrepresented by reliance upon quantitative data alone. In such a situation qualitative methods can be helpful in clarifying both (evolving) situations and (evolving) subjectivities by exploring locally-historically 'situated subjectivities'" (Wengraf, 2009, p. 36). Pushing for a narrative, for instance, allows seeing how participants experiences' evolved over a particular time period, how they internalized the new situations, and how they adapted coping mechanisms.

Footnotes

[1] See, for example, Deaton (1987, p. 121), who drew on "aggregate time series data from the United States … suggest[ing] that simple representative models of life cycle are unlikely to be very helpful, at least without substantial modifications". For a more recent study in a similar vein, see Dynan et al. (2004, p. 435), in which they provided evidence on the inconsistency of the "life cycle explanation based on difference in the timing of income".

[2] See Ausubel (1999) for a discussion of the problem of disentangling adverse selection and moral hazard in a consumer credit market.

[3] Non-economic factors such as property links, political and social connections, and familial relations are also determinants of the credit relations between lender and borrower. These factors play an important role for both industrial and bank capitalists in forming credit relations. While for the former, these non-economic factors could imply a guarantee of the promise of payment, for the latter they might build confidence in the eyes of borrowers in assessing the creditworthiness of bank operations. See Lapavitsas (2003) for details. This framework can also be used to understand the increase in consumer lending in the contemporary era. The non-economic, as well as economic, factors have an impact on the relationship between consumers and banks, affecting the availability and terms of credit, as elaborated in the next section (Karacimen, 2013).

[4] Transformation of the traditional banking sector activities is not only confined to consumer lending activities. Banks started to offer a wide range of financial services related to both the transactions of households and open market operations. Through these new activities, they have raised fees and commissions which led to a rise in non-interest incomes in their revenue stream. For a detailed analysis of the diversification of banking sector activities and the reasons behind it see Dymski (2009), Erturk & Solari (2009), Lapavitsas (2009) and Lapavitsas & Dos Santos (2009).

[5] Asset-backed securitisation first proliferated in the USA; it was then extended to Europe and started to grow rapidly there. It has become well-established in the UK, Spain, Netherlands and Italy (Aalbers, 2008). The asset-backed securitisation has

taken different forms in different countries. In the USA, for instance, there has been implicit government guarantees for secondary market securitisation. Two government sponsored agencies, FNMA (Federal National Mortgage Association) and FHLMC (Federal Home Loan Mortgage Corporation) became prominent in the market from the mid-1980 onwards. These quasi-government institutions were supplemented by private mortgage companies. Government support has remained limited in Europe in comparison to the USA.

[6] Although the cash extracted from housing might have been used as an alternative way to consumption, Barba and Pivetti (2009) put forward the idea that several qualitative studies indicate that a significant and increasing part of mortgage debt was used for financing consumption of goods and services between 1980 and 2006.

[7] These are some initial thoughts about what might be reasons behind the differences among core capitalist countries in terms of their social welfare policies and household financialisation. The causality between these factors should be further investigated. Micro research might be helpful in revealing the causal relations and mechanisms underlying the differences across countries.

[8] Karacimen (2013) demonstrates how the insecurity of employment and income is important in determining the increased tendency to borrow, and increasing the vulnerability of workers to debt service problems in the context of a developing country, Turkey.

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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2	University of Siena	Italy
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