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Credit and Debt

Mass consumer society would be unfeasible without near-universal access to credit, which allows consumers to purchase goods and services beyond their savings—often unsecured and without collateral. On one hand, access to credit “allows people to smooth consumption over their lifetime” (Coggan 2012:183). Instead of having to save thousands of dollars to pay up front for homes and cars, consumers can borrow money, albeit with interest, and make monthly payments over a set number of years. As John Kenneth Galbraith argued, credit could perform quite an egalitarian function because “it allows the man with energy and no money to participate in the economy more or less on par with the man who has capital of his own” (Kuttner 2013:182). On the other hand, the consequence of easy access to credit is debt. According to Lazzarato, “Through consumption, we maintain an unwitting relationship with the debt economy” as credit habitually creates “permanent debtors” (2012:20). Disturbingly, increases in consumption have been “largely financed by debt, rather than by increases in wages or appreciation of asset” (Porter 2012:2). According to the Federal Reserve, consumer debt in the United States is over \$11 trillion, including about \$8 trillion in home mortgages, \$1 trillion in student loans, \$800 billion in automobile loans, and \$700 billion in credit card debt (Schneider 2013:6). Given these numbers, it is perhaps not surprising that indebtedness has become normalized—at least for the middle classes (Peñazola and Barnhart 2011).

This chapter will discuss the liberalization of consumer credit over the past few decades, resulting in massive household debt that culminated in the 2008 recession. In doing so, it will explore the asymmetrical relationship between creditors and debtors and suggest that growing economic inequality should be understood as one between those who own financial capital, creditors, and those who do not and therefore are structurally forced to borrow money and become debtors. In addition, the morality of debtors and creditors will be analyzed in relation to this asymmetry, including a discussion of why debtors default on loans. This chapter will conclude with an examination of sovereign debt and review several solutions to indebtedness, including debt forgiveness programs.

Liberalization of Financial Markets and the Credit Industry

State policy “guided credit from the margin of the economy in the 19th century to its center in the 20th,” helping to make the extension of credit profitable (Hyman 2012:40). Usury laws and social customs restricted lenders from charging interest on loans that were often made by small shopkeepers to regular customers who lacked access to bank capital. But in the 1920s, the financial company was created, which could mediate the relationship between retailers and banks by borrowing money from banks, lending it to retailers, who could then lend it to customers. Even after paying banks back, financial companies were able to profit from this economic arrangement, making personal debt a “good investment” (Hyman 2012:41). The rise of **securitization** for consumer debt in the 1970s allowed investors to resell consumer loans. This practice became so profitable that they began producing more loans, often using predatory tactics (Hyman 2012:44, 48).

Since the 1980s, the ideology of **neoliberalism** has come to dominate economic activity and policy initiatives in the United States and other countries around the world—some by choice, others by decree. According to Harvey, neoliberalism is

in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. (2005:2)

One key development of neoliberalism has been the ascendancy of financial markets over industrial production in developed economies. Stocks, bonds, and commodities traded on abstract algorithms made by “bots,” or computerized software applications, characterize capitalism today (Arvidsson and Peitersen 2013:3). The accumulation of wealth is gained from investments and interest on loans and has become largely concentrated in the hands of those who have enough capital to participate in financial markets. At the same time, financial markets have become less regulated, making it easier for the average and even low-income consumer to obtain credit and loans. “Lending standards were steadily reduced” over the past few decades and the size required for down payments or deposits dropped from 20% to in some cases zero; in fact, some individuals can obtain “liar loans” without having to provide any proof of income at all (Coggan 2012:183). The expansion of subprime mortgage loans with adjustable and typically high interest rates to marginal borrowers helped many realize the American dream of homeownership but also caused U.S. mortgage debt to rise from 30% of gross domestic product (GDP) in 1983 to about 80% by 2006 (Mian and Sufi 2014:76; Coggan 2012:183). Between 2000 and 2007, mortgage application denial rates dropped to less than 30% from 42% in low credit-score zip codes at the same time that the average income dropped, creating a situation where “mortgage-credit and income growth became negatively correlated” (Mian and Sufi 2014:76). In addition, aggressive lending practices persuaded many homeowners to take out home equity loans, borrowing against a speculative bubble in their home values that burst during the recession (Mian and Sufi 2014:87). This resulted in millions of homeowners being “underwater,” or having negative equity in their houses, which accounted for 23% of all mortgaged properties in 2011 (Mian and Sufi 2014:26). According to Vague (2014:6), U.S. mortgage debt grew from \$5.3 trillion in 2001 to \$10.6 trillion in 2007, doubling in only six years.

Neoliberalism has encouraged the growth of the credit card industry too, creating institutional arrangements and cultural practices that make swiping a piece of plastic for a can of soda at a vending machine both convenient and acceptable. Laws restricting the activities of credit card companies weakened after a 1978 Supreme Court decision that allowed them to charge interest rates in the state where they are located, not where customers reside. Predictably, this resulted in credit card companies establishing their offices in states with high interest rates to become more profitable and developing aggressive marketing campaigns, such

as mailing preapproved credit card applications and promoting introductory 0% annual percentage rate offers (Vyse 2008:50, 25). Some companies engaged in ethically questionable practices, like arbitrarily increasing interest rates without notifying customers, unfairly allocating payments to balances on low interest rates first over higher ones, and issuing credit cards to individuals under the age of 21, many without steady incomes (Credit Cardholders Bill of Rights Act 2009). The primary way that credit card companies make money is through encouraging their customers to accrue and revolve debt over time, and once these customers reach their credit limits, many credit card companies will simply increase their lines of credit to allow them to continue consuming, effectively preventing them from paying off their debt. According to Vyse (2008:25), from the perspective of the credit industry, the “worst customer is one who never carries a balance on her credit card,” who they refer to as “deadbeats.” Structurally, credit card companies have created an economic environment that makes it incredibly difficult for individuals who either voluntarily choose not to have credit cards or are involuntarily denied access to them. One needs a credit history—and the all-important credit score—to obtain a standard automobile loan or home mortgage or, in some cases, even rent an apartment. Furthermore, many mobile phone services and travel reservations for hotel rooms require consumers to have a credit card with a high enough limit to cover incidental charges.

Of course, the late 1970s coincided with stagnant wages, the loss of industrial jobs overseas, and a decrease in welfare assistance, positioning the credit card as the “new safety net” (Vyse 2008:52). The rise of neoliberalism has cut public spending to such an extent that consumers are forced to use credit to finance goods and services, such as education, that were supported at least in part by state provisions and subsidies (Dienst 2011:60). As the household debt-to-income ratio spiked from 1.4 to 2.1 between 2001 and 2007, the average American had little or no savings to use to pay for unexpected events like the loss of a job, an automobile accident, or a medical emergency; however, he or she did have access to an average of four credit cards to choose from to pay for these events—and more (Mian and Sufi 2014:4; Botsman and Rogers 2010:30). Many consumers found themselves in a cat-and-mouse game of using one credit card to pay off another one and transferring balances from high-interest rate cards to new ones with temporary low or zero interest rates. Credit card debt tripled between 1989 and 2001 from \$238 billion to \$692 billion, peaking at \$1.005 trillion in 2008 (Botsman and Rogers 2010:30; Miller and Washington 2014:55).

Neoliberal policies that have made home loans and credit cards more widely available certainly give many consumers the ability to purchase the American Dream they would otherwise not have. In doing so, they have helped to shift the view of debt from something that most consumers try to avoid into something that is, if not embraced, then at least acceptable (Peñaloza and Barnhart 2011). Indeed, consumer debt is currently the norm and has “become one of the most common shared qualities of middle-class Americans, usurping the fraction of the population that owns a home, is married, has graduated from college, or attends church regularly” (Porter 2012:5). The normalization of indebtedness has even shaped the practice of filing for personal bankruptcy in the past few decades. In 1978, the Bankruptcy Reform Act made filing for bankruptcy easier by allowing most debtors to file for **Chapter 7 bankruptcy**, which permits them to eliminate their consumer debt after liquidating nonexempt assets. In some cases, property, houses, and automobiles are considered nonexempt, so debtors can retain them at the same time they default on other types of debt, especially unsecured debt like credit card and medical debt. Debt is typically discharged four months after filing, there is little court involvement, and attorney fees average \$1,000 to \$1,500 (Porter 2012:18). Compared to **Chapter 13 bankruptcy**, which requires filers to establish a repayment plan to creditors but retain more of their assets. In light of the fact that Chapter 13 bankruptcy does not allow filers to discharge their debt until the end of repayment, and costs between \$2,000 and \$4,000, it is clear why more debtors would choose to file for Chapter 7, especially as most of them do not have anything of value to liquidate (Porter 2012:19; Vyse 2008:48).

Personal bankruptcy filing increased after 1978, reaching a record high of 1.6 million in 2003 (Vyse 2008:48; www.justice.gov). Policy makers argued the increase in personal bankruptcies indicated their normalization and consequent lack of social stigma. Representative Asa Hutchinson claimed that bankruptcy had become “a tool to avoid financial obligations rather than a measure of last resort” (Thorne and Anderson 2006:79), and Senator John Kerry stated that bankruptcy had lost so much of its stigma that it had become “a lifestyle choice” (Vyse 2008:47). Hutchinson and Kerry were not alone in calling for changes to the bankruptcy laws, which helped pass the **Bankruptcy Prevention and Consumer Protection Act of 2005** with strong bipartisan support. This act makes it more expensive to file for bankruptcy by increasing attorney fees and requiring new income limits (Vyse 2008:47). According to data from the U.S. Courts, the quarterly filing of bankruptcies dropped to around 200,000 in March 2006 from over 600,000 in December

2005 (Vyse 2008:54). Whether this sharp decline in bankruptcies can be entirely attributed to the 2005 act is debatable, but it appears that the 2008 recession blunted this decline, with approximately 1.5 million households filing for bankruptcy in 2012 (Porter 2012:2). Furthermore, the disappearance of the social stigma surrounding indebtedness is also questionable. One study of bankrupt debtors found that they tend to feel shame and humiliation; about 80% of them tried to conceal their bankruptcy from others, especially their parents, employers, and coworkers, even though the declaration of bankruptcy is a public act and is published in most city newspapers (Thorne and Anderson 2006:84). This same study also found that some bankrupt debtors feared stigmatization so much that they used avoidance techniques, like postponing filing and ignoring bill collectors (Thorne and Anderson 2006:86). In addition, the increase in bankruptcy filings after the 1978 Reform Act may not have been caused so much by easier filing requirements and lack of social stigma but by structural necessity as wages and job security declined and divorce rates increased (Vyse 2008:51–52). Thus, rather than becoming normalized, declaring bankruptcy could have continued to be associated with personal failure, lack of self-control, and even laziness, but economic necessity forced debtors to file anyway.

Debtor-Creditor Relationships

While indebtedness is certainly created by economic practices, like “the leveraging of values beyond belief,” there are “social and psychic relations that make economic debt possible” (Dienst 2011:13). According to Susan Wilcox, “Debt is a social contract. . . . You don’t enter it alone—it’s relational and communal” (Steenland 2013). Historically, credit was a form of virtual currency that represented “a relation (of debt and obligation) between human beings” (Graeber 2009:3). While trust between creditor and debtor is a critical aspect of their relationship, especially before institutions such as churches or nation-states could provide “some sort of controls on the potentially catastrophic social consequences of debt,” the threat of violence is also present as anyone who has watched *The Godfather* or *The Sopranos* can easily understand (Graeber 2009:8). Dating back at least to 1752 B.C. in the Code of Hammurabi of Mesopotamia, **debt bondage** or debt slavery remains one of the most hostile relationships between creditors and debtors. According to this code, men could pledge their wives, children, and even themselves into slavery to a merchant for money to pay off their debts (Atwood 2008:56). In

England during the seventeenth and into the early nineteenth century, creditors could have individuals who owed them money arrested and held in debtors' prisons until they paid their debts. Absurdly, debtors were required to pay for their room and board in these prisons, making it even more difficult to pay back the money they borrowed. Often the debtor's family had no choice but to live in prison with him and go out to work to pay for the cost of room and board (Atwood 2008:127–28). Indentured servitude was a common form of debt bondage in the United States during the 1600s when labor was in short supply. Immigrants, mostly from the British Isles, would be required to work a specified time for a creditor or master who fronted the money to pay for their passage across the Atlantic (Atwood 2008:130–31). While imprisoning people for indebtedness may seem like an archaic and inhumane practice, it has made a comeback in the United States, with some states, like Minnesota, increasing its use of arrest warrants against debtors by 60% between 2005 and 2009 (Graeber 2011:17). Recently, in the state of New York, some nursing homes are filing for legal guardianship of patients who owe them money (Bernstein 2015). Today, debt bondage is not uncommon in India, where Human Rights Watch estimates that 15 million children are forced to work to pay off their parents' debts (Atwood 2008:129).

Besides the threat of bondage, the behavior and lifestyle of debtors have been scrutinized by creditors as a way to discern who is worthy to receive loans and who is making a good-faith effort to pay loans back. In the words of Marx, "Credit is the economic judgment on the morality of a man" (Lazzarato 2012:59). According to Lazzarato (2012:3), "Debt produces a specific 'morality,'" such as the "promise" that one will honor his or her debt and at the same time is at "fault" for having entered into debt in the first place. Ross (2014:185) argues that the belief that loan repayment is "a highly moral test of personal responsibility" is the "glue that holds the financialized economy together." In particular an asymmetrical relationship exists between the debtor and the creditor, resulting in a situation where "the one who must accept credit (the debtor) submits to the judgment of the creditor" (Dienst 2011:148). Benjamin Franklin summed up this relationship in the following:

The most trifling actions that affect a man's credit are to be regarded. The sound of your hammer at five in the morning, or eight at night, heard by a creditor, makes him easy six months longer; but if he sees you at a billiard-table, or hears your voice at a tavern, when you should be at work, he sends for his money the next day; demands it, before he can receive it, in a lump. (Weber 1992:15)

Thus, even the debtor's free time must meet the moral approval of his or her creditor. That is, if one is deemed to possess the moral character to borrow money in the first place. Simmel, quoting an English businessman, captures the sentiment of how the poor cannot be trusted with credit because they do not have enough honor or status: "The common man is one who buys goods by cash payment; a gentleman is one who I give credit to and who pays me every six months with a cheque" (Polletta and Tufail 2014:8). Today, new banks are trying to evaluate the character of potential borrowers by using digital software to track their household buying habits, social network connections, and even whether they use proper capitalization in their online correspondence—the assumption being that if they do not, they must be flippant or lazy and therefore unworthy of credit (Lohr 2015).

Ironically, the morality of money lenders used to be questioned more critically than that of borrowers. **Usury**, or the payment of interest on a loan by a borrower to a lender, was prohibited in Judaism and Christianity and remains forbidden in Islam. These religions found it objectionable that creditors could profit from debt, especially when creditors and debtors belonged to the same religion. The Torah allowed Jews to charge interest on money they lent to non-Jews, but Deuteronomy states that "thou shalt not lend upon interest to thy brother" (Jafri and Margolis 1999:372). The Catholic Church excommunicated usurers during the Middle Ages, positioning Jews as money lenders in Florence and other Catholic cities and countries at the same time they were denied access to other types of work (Graeber 2011:10; Jafri and Margolis 1999:373). As Graeber reminds us, the usurer is often depicted as the Devil, "an evil accountant with his books and ledgers" (2011:10), while Jesus instructed his disciples in the Lord's Prayer to "forgive us our debts as we forgive our debtors" (Atwood 2008:44). However, the Protestant Reformation signaled a shifting view of creditors as it did in making money and accumulating wealth more generally. As long as creditors viewed their job as a calling from God and kept interest rates reasonable, Martin Luther and John Calvin did not condemn them or view their actions as sinful (Jafri and Margolis 1999:374–75). Calvin went so far as to state that "capital and credit are indispensable; the financier is not a pariah, but a useful member of society" (Tawney 1954:95, quoted in Jafri and Margolis 1999:375). When the role of creditors became indispensable in the development of capitalism, "the moral stain was removed from the business of lending," and it was "shifted onto those who required its services" (Vyse 2008:34).

In addition to moral judgments, today debtors are forced to bear responsibility for most of the financial risk associated with debt. For example, a decline in housing values affects not lenders but borrowers as their home equity declines and net financial worth evaporates; the lender is still owed the remainder of the mortgage (Mian and Sufi 2014:12, 18). Perhaps the most glaring evidence of the current asymmetrical relationship between creditors and debtors is how the federal government favored the former in its economic stimulus plans to recover from the 2008 recession. The very Wall Street banks that were most responsible for causing the 2008 recession received “\$700 billion in taxpayer aid and trillions more in Federal Reserve cash advances and bond purchases,” while individual consumers received no such bailout for their homes that went into foreclosure or mortgages that were underwater (Kuttner 2013:206). Protecting the interests of creditors over those of the debtor is a recent development, part of the neoliberal policies enacted by nation-states and international organizations like the World Bank and the International Monetary Fund (IMF) in the 1980s (Graeber 2009:9). The trend can be observed in regards to public debt as well, which was directed in the past “toward socially necessary investments,” like education and health care, but has been turned into “a subsidy program to increase the power of the private sector,” the cost of which is “imposed on everybody” (Dienst 2011:28, 59). In other words, the taxpayers are asked to pay the cost of bailing out Wall Street at the expense of state services that could—and should—benefit them. They are obliged to do this without any guarantees of employment or wage increases from the private sector. Even more indicative of the power of creditors over debtors is that “even those too poor to have access to credit must pay interest to creditors through the reimbursement of public debt” (Lazzarato 2012:32).

This asymmetrical burden of debt risk and imposition of costs is not surprising given the rise in economic inequality since the late 1970s. Hyman captures this quite clearly when he explains that “whereas in the postwar period the 1 percent paid the 99 percent in wages, after 1970 the 1 percent increasingly just lent the 99 percent money” (Hyman 2012:48). According to Dienst (2011:151), this has created an economic situation where “there is credit without debt for the few (who can wield the power of investment without accountability) and debt without credit for many (who bear the hazards without exercising a choice).” Clearly, the 1% of creditors are growing extremely wealthy at the expense of the 99% of debtors, who, in the absence of government protections or religious

doctrine, neither expect nor often experience fair money-lending terms, like reasonable interest rates or fair debt repayment schedules. Even Adam Smith, who professed the freedom of the market, understood the precarious position of debtors when he claimed that some government regulations were necessary to limit interest rates in “order to prevent the extortion of usury” (quoted in Clary 2011:421).

Debtor Default and Settlement

Given the unequal position of debtors in relation to creditors today, it is not shocking that many default on their consumer debt, including credit card debt, auto and medical loans, gym fees, and overdue utility and mobile phone bills. Banks often sell this unpaid consumer debt, or **bad paper**, to third-party collection agencies that purchase it for pennies but attempt to collect and make a profit off of the original amount of debt. This so-called bad paper is usually a simple spreadsheet that contains the personal information of the debtor and how much he or she owes. Problems arise when bad paper is duplicated and sold to different debt collectors, resold, or stolen; it becomes difficult to trace how much, if any, of the original debt has been paid, and debtors may be harassed by several collection agencies at once to make payments on the same debt that has been copied (Halpern 2014). Complicating matters, much resold debt is time-barred, or beyond the statute of limitations, to legally collect, which in most states is between three and six years. Controversial sewer services, like falsely claiming to have served papers on individuals that have been thrown away or using robo-signing to serve en-masse affidavits to individuals without verifying their accuracy, are additional problems that plague the debtor-creditor relationship (Turnbull 2013:339).

The purchasing of debt has grown considerably over the past decade, involving tens of billions of dollars annually (Turnbull 2013:339). “American consumers owe a grand total of \$11.28 trillion, of which roughly \$831 billion is delinquent or unpaid” (Halpern 2014:4). According to Porter (2012:6), the percentage of consumers who have experienced third-party debt collection activity doubled from 7% in 2000 to 14% in 2010. Given the bad practices of many debt collectors and the increasing number of people who must deal with them, it no surprise that the Federal Trade Commission ranks complaints against debt collectors second only to identity theft (Halpern 2014:7). However, many people do pay off their consumer debt, which begs the question why? According to one debt collector, most

people actually want to pay off their debt, and he finds that talking to debtors as a therapist would talk to her patients works better at securing payment than harassing tactics (Halpern 2014:15). Perhaps the most telling evidence that the indebted feel an obligation and responsibility to pay off their debt is the growing popularity of debt refinancing and settlement agencies. Unlike the traditional debt collector who comes knocking on the debtor's door or calling the debtor's phone number, this newer form of collecting debt typically requires the debtor to contact the collector (Halpern 2014:218–19). Thus, instead of ignoring the knocking on the door or the ringing of the phone, the debtor is actively acknowledging his or her debt and pursuing payment options.

Even though most people pay off their debt, there are those who do not; some default entirely, while others settle their debt and agree to repay a reduced amount of their original balance. Just as creditors view the actions of debtors through a moral lens, so do debtors view the services performed by creditors. One study on debt settlement found that debtors were more likely to pay back debt in full when they felt like the creditor performed a valuable service for them. For example, debtors are more likely to pay back medical debt compared to credit card debt because they feel obligated to hospitals and doctors for saving or improving their lives, even though the amount of medical debt often surpasses credit card debt (Polletta and Tufail 2014). If debtors feel like creditors are using unscrupulous tactics, they may also feel justified in defaulting on their loans. Creditors consider debt "contaminated" after debtors resist aggressive "shakedown" measures to coerce them to pay, including threats to take them to court. Once debt is deemed contaminated, creditors generally give up on trying to collect, which happens most frequently with payday loans (Halpern 2014:221). It is easy to understand why debtors would be most likely to default on loans made by payday lenders, considering that their fees and interest rates are ridiculously and some might argue unethically high. Currently, the national average annual rate charged by payday lenders is over 400%, and the fee charged to borrow \$100 is between \$18.50 and \$30 (Mayer 2013:515). In addition, the payday lending market might be interpreted by some debtors as unfair or coercive because they lack access to conventional banks and credit unions, and their immediate need for cash creates a situation where the price of the loan becomes extraneous (Mayer 2013:520). Therefore, even if payday lenders do perform a valuable service, their questionable tactics and unfair market advantage might induce some debtors to default.

Clearly, there is a critical need to establish some semblance of equity into the relationship between debtors and creditors. Atwood (2008) emphasizes that when the relationship between debtors and creditors is out of balance for too long, not only does animosity between them grow, but debt becomes “dirty,” like the slates at pubs that were used to record the tabs of regular customers. When the slate became too dirty, “smeared all over with debts,” it was “dirty for both debtors and creditors alike.” To restore the relationship between debtors and creditors, the slate needed to be wiped clean (Atwood 2008:80). The same can be argued today—that the slate needs to be wiped clean to relieve the financial and moral burdens placed on debtors. The actions of creditors have been if not forgiven then at least somewhat alleviated through federal stimulus policies. In the context of the 2008 recession, they have escaped much of the blame as well for creating the conditions that encouraged overleveraging at the individual and household levels. However, debtors are still waiting for the slate to be wiped clean. According to Greider (2011:12), “Forgiving the debtors is the right thing to do, because the bankers have already been forgiven. The largest banks were in effect relieved of any guilt . . . when the government bailed them out, no questions asked.”

Pawn Shops

Dating back to the Middle Ages in Europe, pawning household goods, clothing, jewelry, and other objects of consumption has been used by all classes of society—from the aristocracy trying to maintain their position of status to the impoverished trying to survive between harvests or paychecks. Even the Catholic Church, which viewed the interest charged by pawnbrokers as a sin, tolerated money lending as long as it was conducted between people of different religions. Since Jewish people were prohibited by law from working in most trades—and their religion did not condemn usury—many found an occupational niche as moneylenders and pawnbrokers (Woloson 2009:71–72). It became a weekly custom for some Christians to pawn their Sunday attire on Mondays and redeem it on Saturdays to budget household expenses between paydays (Calder 1999). Until the turn of the twentieth century when mass production made clothing less expensive and valuable, articles of clothing were the most popular possessions pawned (Caskey 1994:17).

Pawning is essentially collateralized lending. The object pawned, referred to as a pledge, is collateral, which is used to obtain a short-term monetary loan. These loans are subject to interest, which varies by law according to each state. Pawners receive a ticket that states the conditions of their loans, including the interest rate and when the loan is due. These pawn tickets must be presented by the pawner if he or she wants to retrieve the object that was pawned. Pawnbrokers often permit pawners to renew their loans if they pay the interest that they owe at the end of the initial loan term. If a pawner fails to reclaim his or her collateral, then it becomes the pawnbroker's property. Pawnbrokers can then sell these objects in their stores to recoup the loss of the loan in addition to a profit. Thus, although officially neither merchants nor bankers, pawnbrokers act as both (Woloson 2009:2).

Some argue that this type of collateralized lending is more transparent—and perhaps even fairer—than using credit cards, especially for low-income consumers. Pawners know upfront the conditions of their loans, they cannot be charged compound interest, and if they fail to reclaim their collateral, they simply lose possession of it instead of being subjected to harassing bill collectors and long-term low credit ratings (Woloson 2009:186; Krupnik 2009:55–56). Pawnshops also provide a space of consumption for people to shop for goods that might not otherwise be available in their neighborhoods. They circulate preowned goods through the local economy at prices low-income consumers can afford. However, others view pawning as a form of fringe banking that exploits low-income consumers, who lack access to mainstream banks, credit cards, or retail stores (Caskey 1994).

Questions

1. Discuss the different practices and stigmas surrounding obtaining a quick cash loan from a pawnshop and using a credit card. Does one type of loan seem more transparent than the other? Are you more likely to pawn one of your possessions or use a credit card to access money you need? Why?
2. Watch an episode of one of the popular pawn store reality shows, such *Pawn Stars* or *Hardcore Pawn*. What kinds of items are people trying to pawn? What reasons do they give for pawning their belongings? How are they treated by the employees and/or owners of these pawn stores? Do think that they are being victimized or being offered a helpful loan service? Why?
3. Would you ever consider shopping at a pawnshop? Why or why not?

Debt Forgiveness and Relief

The precedent for debt forgiveness has its roots in Mosaic law, whereby every seven years, debts were considered annulled, land would be returned to its original owners, and debt slaves would be freed (Atwood 2008:48). Referred to as a **Jubilee**, debt forgiveness found a more secularized audience in the late 1990s as a way to release poor countries from sovereign or **public debt** incurred mainly from loans by the World Bank and the IMF. Much of this sovereign debt was considered **odious debt** because it was acquired without the consent of the people by authoritarian rulers who used the money to benefit themselves and their supporters instead of improving the lives of the people. Some policy makers questioned whether this debt should be transferable to successor governments when these previously unscrupulous rulers were either overthrown or elected out of office (Jayachandran and Kremer 2006:216). Odious debt became particularly problematic in light of the **structural adjustment** policies imposed on loans by the World Bank and IMF. These policies required debtor nations to open up their markets to global free trade by eliminating trade barriers and subsidies that protected domestic markets and privatizing state services (Roodman 2006:18). The assumption behind structural adjustment policies was that they would encourage economic growth, which would both reduce poverty and provide the means for governments to pay back their loans. However, the structural reforms required by the World Bank and IMF as loan conditions were often at the expense of funding public services, such as education and health care. Instead of alleviating poverty, these reforms exacerbated it in many countries, especially when food prices increased as a result of the elimination of state subsidies. If debtor nations did begin to realize economic stability, then the IMF would demand debt repayments, which would in turn threaten this very stability (Sachs 2006:vii).

By the late 1990s, it was becoming distressingly evident that sovereign debt was overwhelming poor nations, motivating a diverse coalition of participants to organize a global campaign to forgive Third World debt. Jubilee 2000 mobilized faith-based groups, trade unions, celebrities, academics, and even businesspeople to pressure G8 countries to cancel the debt of **heavily indebted poor countries**, or HIPC's (Mayo 2005; Pettifor 2006). In exchange for debt relief, HIPC's were required to allocate money that they would have used for debt service payments to domestic poverty reduction programs. Organizers of Jubilee 2000 were able to frame

debt forgiveness—or cancellation, as many supporters prefer to use since forgiveness connotes blaming the debtor instead of acknowledging the behavior of creditors in causing indebtedness as well—as a worthy goal to welcome the new millennium and one that would resonate with the religious audiences in Western nations. The movement's first popular success came during a protest at the 1998 G8 summit in Birmingham, England, when over 70,000 people joined together to form a 9-kilometer human chain, effectively putting debt cancellation on the international agenda (Pettifor 2006:301–2). Celebrities such as Bono joined protests at the 1999 G8 summit in Cologne in June, and in September 1999, Pope John Paul II endorsed Jubilee 2000, prompting President Bill Clinton to announce that the United States would cancel all debts owed by HIPCs (Pettifor 2006:304–5). Of the 40 countries identified as HIPCs, 36 qualified for debt relief by 2011 and received close to \$100 billion in debt relief combined (Kuttner 2013:269).

Sovereign debt is not only a problem faced by HIPCs in Africa and South America. In 2008, the public debt in the United States totaled over \$10 trillion, and the IMF estimates that “the average developed country will have government debt of more than 100 percent of GDP in 2015, compared with just 30 percent in emerging markets” (Coggan 2012:197). Currently, several European Union countries are experiencing postrecession debt burdens that are proving difficult to overcome, especially in the so-called PIGS countries (Portugal, Ireland, Greece, and Spain). Because these countries adopted the euro as their national currency, they are not free to devalue their currencies to try to stimulate economic growth. This left them with few options but to implement **austerity measures** to try to relieve their debt burdens in exchange for bailout money from euro-zone countries, Britain, and the IMF. These austerity plans include severe cuts in domestic spending, especially to public-sector jobs and pensions (Coggan 2012:201, 206). Greece, for example, accepted a €110 billion bailout package in May 2010 and implemented harsh austerity measures, which not only failed to increase the international economic competitiveness of Greece but further contracted its domestic economy, producing more sovereign debt and the need for more bailout money in just over a year (Coggan 2012:207). With household budgets stretched to the brink, Greek citizens protested this new bailout because it meant accepting even more cuts to public services, which ultimately led to the election of Syriza, a radical, anti-bailout party, in 2015. Given that Greece's current

sovereign debt load is the equivalent of 175% of its GDP, there is talk of European creditors relieving at least some of its debt burden to prevent the country from default (Eavis 2015).

Forgiving sovereign debt, especially if it is odious debt, is one thing, but what about cancelling personal debt? Unlike sovereign debt that can be blamed on abstract institutions and international policies, individuals are blamed for their own indebtedness because they are perceived to have been irresponsible with their money; thus, they are not easily understood as justified victims. Viewed as an individual problem, debtors are forced to face their debt and their creditors alone, a problem that one organization, Strike Debt, is trying to change. A debt resistance movement with its origins in the Occupy Wall Street movement, Strike Debt wants individual debtors to realize that their indebtedness is not their fault but the result of an economic system, or a **creditocracy**, that has made indebtedness a “precondition not just for material improvements in the quality of life, but for the basic requirements of life” (Ross, quoted in Palumbo-Lui 2014). Its slogan “You Are Not a Loan” and its publication, the *Debt Resistance Operation Manual*, hope to educate the public that they are indeed not alone in being in debt and, moreover, that loan repayment is not a “moral test of personal responsibility”; therefore, debtors should not feel a moral obligation to pay their debt (Ross 2014:185). Some of Strike Debt’s recent campaigns include Rolling Jubilee and trying to unionize college and university students. The goal of Rolling Jubilee is to raise money to purchase third-party medical debt. Instead of collecting this debt, it cancels it. So far, it has raised \$700,000 and canceled approximately \$20 million in medical debt (Ashton 2014). In addition to Rolling Jubilee, Strike Debt is attempting to organize college and university students into a union to protest the cost of higher education, which has resulted in massive student loan debt—over \$1 trillion in the United States alone (Ashton 2014). Considering that the federal government made a profit of \$41.3 billion in 2013 on student loans it originated and that student loan debt cannot legally be discharged if one declares bankruptcy, mobilizing students to fight for debt relief does not seem unreasonable (Jesse 2013). According to Andrew Ross, a sociology professor at New York University and participant in Strike Debt, the ultimate goal of this action is not simply debt forgiveness but a system of free higher education (Palumbo-Lui 2014). Ross argues that to be truly free of debt, cancellation campaigns are not enough to achieve structural change; an alternative to creditocracy must be established to prevent debt from accumulating yet again.

Conclusion

Since most Americans are in debt, some Marxists wonder if “there is a special role for debt in emancipatory thinking” that might accelerate financial crises and lead to if not direct revolution then at least the dissolution of capitalism (Dienst 2011:152). Historically, there is a significant correlation between debt and rebellion. According to Graeber, “For thousands of years, the struggle between rich and poor has largely taken the form of conflicts between creditors and debtors” (2011:8). If creditors were unwilling to wipe the slates of debt clean, then debtors were prepared to do so with force. “Popular insurrections have begun the same way: with the ritual destruction of the debt records” (Graeber 2011:8). From the French Revolution of 1789 to the Hungarian uprising of 1956, “one of the primary goals of the rebels was to destroy tax and debt records” (Atwood 2008:142–43).

Aside from debtors organizing a mass rebellion, the government could do a better job of protecting debtors from unfair practices of creditors. Most recently, the Croatian government implemented a program to cancel the debt of 60,000 of its poorest citizens, specifically those who have blocked bank accounts, owe less than \$5,000, own no property except for their primary residence, and receive welfare (Orovic and Smale 2015). Some steps in this direction that have been made in the United States include the passage of the **Credit Cardholders Bill of Rights Act in 2009** and creation of the **Bureau of Consumer Financial Protection (BCFT)** in 2010. The former aims to protect credit cardholders from arbitrary rate increases, double-cycle billing, fees for regular processing services, and due date gimmicks. It also stipulates that anyone under the age of 21 can only acquire a credit card if they have a qualified co-signer or prove that they have the financial means to repay their credit card debt. The BCFT regulates consumer mortgage companies, payday lenders, and private education lenders (Mogilnicki and Malpass 2013:557). It also hopes to educate the public with its “Know Before You Owe” campaign, which provides consumers with clear disclosure information on the terms of mortgage loans. Most recently in 2015, the BCFT and the U.S. Department of Education forgave \$480 million of debt owed by students who borrowed money through high-cost private student loans from Corinthian College, sending a clear signal that debt forgiveness for others is not out of the question.

Of course, there is another course of action available to current and potential debtors: stop borrowing and start saving. According to Porter, “The deleveraging process of paying down debt and increasing savings

has just begun” (2012:2). Although indebtedness has become a norm over the past few decades, postrecession attitudes indicate that avoiding debt is becoming the “new normal” (Etzioni 2011). Chapter 10 will explore how this new normal is informing a variety of anticonsumption practices that can prevent individuals from having to rely so much on creditors—and therefore going into debt at all.

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