2015

Sociology of Debt: States, Credit Markets, and Indebted Citizens

BASAK KUS, *Wesleyan University*

Sociology Compass 9/3 (2015): 212–223, 10.1111/soc4.12247

Sociology of Debt: States, Credit Markets, and Indebted Citizens

Basak Kus*
Wesleyan University

Abstract

Within the context of the recent financial crisis, the causes and implications of mounting levels of household indebtedness have begun to be examined from a variety of angles: Why have nations differed so drastically, historically speaking, in terms of the level of debt that their citizens carry? Why have patterns converged over the past few decades, with levels of indebtedness increasing across the board? This paper considers these questions from a sociological perspective. I first consider the role of political, institutional, economic, and cultural factors, as well as individual characteristics, in shaping the demand for and supply of credit and the degree and nature of household indebtedness in and across nations. I then attempt to explain the cross-national convergence towards rising indebtedness over the past few decades by situating the transformation of these various demand and supply side factors under the neoliberal regime.

Introduction

Household debt levels have increased substantially in advanced nations over the past two decades. In 2010, American households' use of credit averaged at 126 percent of their disposable income, whilst households in EU member countries used credit that amounted to 99 percent of their disposable income.[1] As staggering as these figures are, until recently, sociologists have not paid enough attention to indebtedness as a socioeconomic phenomenon. It is within the context of the 2008 financial crisis that the causes and implications of mounting levels of household indebtedness in advanced societies have begun to be examined from a variety of angles.

This essay reviews the burgeoning literature on rising indebtedness around three questions: Why do individuals take debt? Historically speaking, why have nations differed so drastically in terms of the level of debt that their citizens carry? And why have patterns converged over the past few decades, with levels of indebtedness increasing across the board?

Two caveats are in order. While the focus here is on the sociological literature, I present works from adjacent disciplines that remain relevant to the discussion. Furthermore, my discussion of the sociology of debt often refers to the United States because the development of formal credit markets catering to consumers took place faster and earlier in the United States and provided a model to other Western nations. Moreover, indebtedness has become a particularly salient issue in the United States in light of the recent financial crisis. That being said, I draw comparisons with and refer to the experience of European nations where necessary.

In what follows, I first consider the role of a variety of factors – political, institutional, economic, cultural, and individual traits – in shaping the *demand* for and *supply* of credit and ultimately the degree of household indebtedness in and across nations. I then discuss the rising household indebtedness as a global phenomenon that is part and parcel of the neoliberal reorganization[2] of the state–economy–society relationship.

I argue that the neoliberal turn impacted the household indebtedness in several ways in the United States. On the *demand* side, the erosion of social safety nets and shrinking wages increased citizens' credit reliance (Crouch 2009; Rajan 2010; Kus 2013; Montgomerie 2009; Leicht and Fitzgerald, 2014a, 2014b). At the same time, increasing demand for consumer products during the late 1990s and early 2000s – a time of high growth in many Western nations, particularly in the United States – caused middle-class families to save less and spend more on credit (Schor 1998; Frank 2007; Cynamon and Fazzari 2008; Davis 2009). On the *supply* side, the deregulation of credit markets made a larger supply of credit available to a larger pool of people. With less rigid regulations, the financial sector and credit markets became more aggressive in pushing high-risk loans – particularly to citizens in the lower end of the income distribution (Montgomerie 2009; Soederberg 2013). The increased access to credit moderated the effects of decline in real purchasing power and rising inequality by enabling households to pay for a variety of necessities and conveniences using credit. For many middle and lower-income American households, however, this meant a new form of socioeconomic insecurity that came with paramount levels of indebtedness – what Leicht and Fitzgerald (2014a, 2014b) call "the hidden crisis of the American middle class."

Credit and debt: a historical and theoretical background

Credit and debt are social and economic arrangements that have existed for most of human history. Together, they make up two sides of the same coin, denoting a contractual relationship between two or more parties in which financial resources are made available in exchange for a promise to pay back at an agreed cost (Graeber 2012).

Credit is a financial resource that makes it possible to pay for necessities or conveniences today, but at the same time, it is a liability that might curb consumption tomorrow. Hence, its place in one's personal balance sheet remains ambiguous (Hodson *et al.* 2014, p. 316). In fact, it is this dual quality of being a desirable and necessary financial tool on the one hand and a source of risk on the other that has made credit and debt relations subject to both moral confusion and varying forms of moral appraisal in different epochs and societies (Graeber, 2012; Hodson *et al.* 2014; Germain 1997).

Historically speaking, religion played an important role in the moral appraisal of credit (Graeber 2012; Jones 2003, Tawney 1926). The Catholic Church banned the practice of lending money at interest until the 19th century and played a pivotal role in the construction of the moneylender as a person of immoral and evil nature. With the Protestant Reformation, a more pragmatic attitude emerged. Although Luther himself considered usury to be a sin from the perspective of Christian ethics, he understood that moneylending with profit motive was inevitable, and saw this as an issue that pertained to secular authorities (Brook 2007; Graeber 2012). In Calvinism, moneylending found even more acceptable ground. As long as it did not run against the principles of Christian fairness and charity, moneylending at interest was permissible – interest could be charged in circumstances where the borrower was wealthy and the profit would be used for Christian good – but interest could never be charged to a poor man or a man in urgent need (Brook, 2007). By 1650, almost all Protestant denominations had come to agree that a reasonable rate of interest was not sinful as long as the lender acted in good conscience and did not exploit the poor (Graeber, 2012).

In the 18th and 19th centuries, with the Industrial Revolution and economic modernization, moral economy of credit and debt began to transform. Lending and borrowing at interest became increasingly acceptable as an inevitable aspect of modern market societies and began to be addressed in more secular terms. Concerns over property rights, contractual freedom, economic growth, efficiency, choice, and exploitation replaced religious notions of immorality and evilness. The idea that restrictions on lending at interest would not only limit an entrepreneur's ability to raise capital but eventually reduce overall economic growth and welfare was widely accepted by utilitarian thinkers and classical liberal economists such as Smith, Bentham, Ricardo, Say, John Stuart Mill, and Menger (Brook, 2007). Of course, the moral confusion around lending and borrowing practices did not dissipate. Marx's criticism of moneylending that it is not productive but exploitative and that moneylenders exert no effort and yet reap the rewards of production also found resonance in the moral and economic discussions of the 19th century (Brook, 2007).

The development of commercial activity and formal, state-regulated credit markets in the 20th century further legitimized the use of credit as a means to maintain a stable economic condition and attain new opportunities. Nowhere did this development take place as rapidly as it did in the United States. By the end of the 19th century, salary loan offices offering advances on paychecks had spread across the country (Wassam 1908). In the 20th century, the credit market became bigger as banks entered the market to provide small loans to individuals. To be sure, the moral ambiguity surrounding moneylending continued in this period. Banks, like small lenders, found ways to make loans at rates that were much higher than the legal interest limit – those who did not qualify for bank loans had to pay even higher rates.

After the Great Depression, as a part of increasing government intervention in the economy, restrictions were imposed on the interest rates that banks could charge their clients. At the same time, the Roosevelt administration took an active role in encouraging the creation of credit unions to provide government-backed and low-interest loans to the population for the purchase of homes and automobiles. Following the Second World War, the process of spreading credit continued through credit unions, commercial banks, and most significantly, through the credit card (Montgomerie, 2007). During the administration of President Johnson, credit use – particularly mortgage credit – increased as a result of policies that aimed at increasing homeownership nationwide (Fligstein and Goldstein, 2010).

While Americans have been heavy users of credit since the interwar period, credit use in other Western nations remained rather limited. However, the patterns have converged over the years. In European nations, also, individuals' use of debt has increased over time, particularly over the past few decades.

Household indebtedness: the demand side

The culture of consumption

According to the "culture of consumption" thesis, American citizens spend beyond their means in order to maintain a certain way of life upheld by the prevailing consumerist culture.

As Montgomerie (2009) notes, scholars who subscribe to this view find the historical origins of credit reliance in the advent of consumer society in the postwar era – the period that witnessed the first enclosed shopping malls, the opening of the first Disneyland and the first McDonald's, and the boom in production of white goods, furniture, and cars. The rising indebtedness of the past decades is seen as an aggravated form of this consumerist culture.

Various comparative historical studies have lent credibility to the "culture of consumption" thesis. Trumbull's (2010) article of France, Logemann's (2008) article of Germany, and Schwartz's (2009) article of Sweden show that while citizens in these nations have sought to keep consumer debt to a minimum throughout the postwar era, Americans seemed more than happy to incur increasing levels of indebtedness if it meant being able to enjoy an affluent middle-class lifestyle.[3] For instance, as Trumbull shows, in 1955, non-mortgage consumer debt averaged 15 percent of the household disposable income in the United States compared with 0.3 percent in France (Trumbull, 2010). Fifty years later, in 2005, US non-mortgage household debt had gone up to 25 percent of disposable income, while French household debt remained below 15 percent (Trumbull, 2010). Logemann (2008) provides a similar comparison. During the mid-1960s, German households' use of non-mortgage consumer debt was less than a quarter of their American counterparts (p. 532). Germans spent relatively less of their budget on durables (particularly cars) than their American counterparts for most of the 1950s and 1960s and that despite the economic boom of the postwar decades, they were slower to fully embrace the American emphasis on private mass consumption than is often assumed. According to Logemann (2008, p. 526), "in contrast to an American emphasis on low-price mass distribution facilitated by credit financing, a traditional bourgeois model of protectionism prevailed in West Germany." This traditional model emphasized thrift and did not provide room for blurring class differences through debt-financed consumption. The opposition to debt financing, Logemann tells us, was especially high among the older generations, rural population, and bourgeois upper class. He also shows that while the use of consumer credit came to signal the economic expansion of a household in America, in the German context, it remained associated with economic marginality and even poverty.

Low wages, income inequality, and meager social safety nets

The consumer culture explanation of indebtedness has resonated among politicians and pundits since the economic crisis in 2008. Shifting the blame to the consumption-addicted Americans provided a politically convenient alternative to accepting and addressing the socioeconomic and regulatory sources of credit reliance and rising indebtedness. However, various scholars and policymakers have challenged this consumption narrative of household indebtedness and instead have linked indebtedness to structural factors such as low wages, income inequality, and the inadequacy of social safety nets as major factors that lead citizens to use credit (Hacker 2002; Warren and Tyagi 2004; Leicht and Fitzgerald, 2014a, 2014b; Barba and Pivetti 2009; Rajan 2010; Prasad 2010, 2012; Spooner 2012; DeNavas-Walt et al. 2003; Doty et al. 2005; Sullivan 2008; Wheary and Draut 2005).

In nations where wages are low and income inequality is high, those at the lower tail of the income distribution may find many of their needs unattainable without loans. Especially in liberal market economies, such as the United States, where redistributive effort is limited, credit has become essential in maintaining the basic necessities of a middle-class lifestyle and has helped mitigate the discontent of rising income inequality (Rajan 2010). It is not surprising from this perspective that income inequality and consumer credit have been increasing in lockstep since the early 1980s (Krueger and Perri, 2006; Kus, 2013). In her paper, "The Over-Consumption Myth," Warren (2005) notes that while it is undeniable that American households have accrued increasingly greater amounts of debt and outpaced households in other developed economies since the 1980s, this is not because they are spending heavily on luxury items. The modern middle-class American family, Warren notes, spends "21 percent less (inflation adjusted) on clothing than a similar family did in the early 1970s … 22 percent less on food than its counterpart of a generation ago … [and] 44 percent less on major appliances" (pp. 8–9). "Families are spending less on ordinary consumption and more on the basics of being middle class, and this is driving the pattern of household debt" (p. 16). Furthermore, a study conducted by the Center for Responsible Lending, for instance, as reported in Montgomerie (2009), that 7 out of 10 low-income and middle-income households use unsecured debt to pay for one-off misfortunes like home or car repairs.

The absence of a generous social welfare system has also been associated with higher levels of indebtedness. Individuals and households will resort to borrowing to meet basic needs such as housing or schooling or to buffer themselves against various risks and insecurities, such as job layoffs or health expenses, which could be addressed by a strong welfare state (Sullivan, Warren &Westbrook 2000; Warren & Tyagi 2004; Conley & Gifford 2006; Barba & Pivetti 2009; Spooner 2012; Prasad 2012). Healthcare, for instance, which is easily and freely accessible to citizens in some countries, can be a source of financial burden for households in countries where the public provision of health services is limited, compelling them to go into debt. According to a report by the Kaiser Foundation, as discussed by Montgomerie (2009), there has been a 74 percent increase in health insurance premiums for the average US family with health care coverage, which has led to 29 million American adults incurring unsecured consumer loans to make up for the gap between medical coverage and actual costs.

Similarly, the lack of access to free public education may lead to heavy indebtedness. The 2002 National Student Loan Survey showed that for 70 percent of students, loans were critical in allowing access to higher education (Montgomerie 2009). Additionally, it is common for American families to aspire to purchase houses in the zone of a good public school. While this saves the families from paying for elementary and secondary education, it often puts them into higher levels of mortgage debt because there is a premium for purchasing houses in a good school zone (Warren and Tyagi, 2004).

Several scholars (Warren 2005; Schwartz and Seabrooke 2008; Kemeny 1980; Castles 1998) have argued that the weakness of the welfare state is particularly significant in driving up mortgage debt. Kemeny (1980) and Castles (1998) have argued that there is a substantial trade-off between private home ownership and public welfare and that income spent on home ownership substitutes for pension income in market economies. Recent work by Conley and Gifford (2006) also supports this view. According to these authors, "home ownership tends to prevail where state commitments to social insurance programs are smallest" (2006, p. 75). They argue that if owned with significant equity, a family home constitutes "an alternative social insurance mechanism." (p. 58). When unemployment or other economic misfortunes strike, housing equity may assist in riding out the tough times. Economists have long recognized that home equity indeed plays a role as a savings buffer (Carroll and Samwick, 1997). Historically, Franklin Roosevelt's New Deal, Lyndon Johnson's Great Society, Jimmy Carter's Community Reinvestment Act, and both Bill Clinton's and George W. Bush's welfare system reforms were all structured around the idea of homeownership as welfare (Prasad 2010, 2012; Schwartz et al. 2008).

Household indebtedness: the supply side

Scholars who focus on the demand side discuss factors that might raise debt in a world without borrowing constraints. However, in order for the citizens to incur debt, they must first have access to credit (Trumbull, 2012). Thus, the institutional framework – the policies and laws that grant citizens access to credit – must also be taken into consideration.

The regulation of lending and borrowing

Governments maintain distinct approaches to regulating, lending, and borrowing. While some nations attempt to limit access to credit, others make it easy to access credit. For instance, research has shown that in the United States, governments attempted to maximize access to credit throughout the postwar era. American political elites supported the democratization of credit because they saw the expansion of mainstream credit access as necessary not only to individuals attaining a middle-class lifestyle but also to macroeconomic growth (Trumbull 2010; Prasad 2012; Anderson, 2008; Carruthers, Guinnane, & Lee, 2012; Fourcade and Healy 2013). These policies were continued and expanded into the contemporary period. By removing the legislation that forced commercial and investment banks to operate separately (the Glass–Steagall Act), decreasing the level of depository insurance that banks need to carry, encouraging banks to extend credit to low-income households, and allowing banks to shift their risk through new forms of securitization and financialization, the US government created a market flooded with cheap and easy credit that most consumers could not refuse (Schwartz, 2009). Similarly, the UK government made decisive attempts towards expansion of credit access, particularly from the 1970s onwards.

French and German governments on the other hand did not actively encourage credit expansion in the postwar era. Although since the 1980s, lending regulations have become less rigid; they still remain stringent compared with the United States and the UK.

Ramsay's (2010: 3–4) comparison of the operation of credit markets in the UK and France shows how much the two advanced European nations differ in their regulatory approaches: interest rate ceilings on consumer credit exist in France but not in the UK. French policymakers regard the ceilings as a "means to protect consumers from the dangers of high cost credit and over-indebtedness" whereas UK policymakers regard the ceilings as "obstacles that create financial exclusion and increase illegal lending". Until recently, home equity lending was not possible in France. The differences do not end here. While positive credit reporting exists in the UK, France has largely relied on negative credit reporting. The credit reports made available through the Banque de France provide information on whether individuals are in considerable arrears on repayment, have gone bankrupt, or have made applications to the over-indebtedness commissions. They do not include "positive" information on loans taken out or payment records. The negative credit reporting system is expected to produce greater incentives to repay. This is because in reporting systems that include both positive and negative information, lenders see the whole picture and might overlook one or two defaults in the presence of a substantial positive record. However, in a negative system that is not possible, comparative data suggest that countries with negative reporting tend to have lower levels of consumer debt.

The literature provides several explanations for the cross-national variation in regulatory differences and their corresponding levels of indebtedness. First, there might be different political cultures underlying the regulation of credit markets. In the United States and the UK, lending and borrowing are seen as a matter of individual rationality, freedom, consumer choice, and personal responsibility. In France and Germany, on the other hand, the rhetoric of protection remains paramount. In both nations, governments relied on a model of paternalistic state protection of consumers against the market throughout the postwar era (Eichengreen and Mitchener, 2004; Trumbull, 2012; Ramsay, 2012). In fact, Ramsay's work shows that the French government's paternalism extended to the idea of protecting the consumers from themselves –consumers, after all, are not always rational, responsible, or knowledgeable.

Cultural differences in terms of celebration and promotion of entrepreneurship might also play a role in shaping how nations approach regulation. The cultural framework of the United States and the UK honors entrepreneurship more than France and Germany (Dobbin, 1997). In these nations, credit was historically seen as a tool that enhances growth and entrepreneurship. The differences in personal insolvency laws, some scholars argue, reflect the respective national attitudes towards the role of credit in enhancing entrepreneurship (Niemi-Kiesiläinen, 2003; Kilborn, 2007). As Spooner (2012) notes, the incentives provided to entrepreneurs by the safety net of generous bankruptcy systems are recognized as an important contributor to high levels of self-employment, more so than real gross domestic product growth.

Legal systems of nations – whether they are embedded in the civil law or common law tradition – might also direct the regulatory approach that they will take towards credit markets and lending and borrowing practices. The civil law tradition, which emerged in continental Europe during the Middle Ages, is associated with a heavier hand of government ownership and market regulation than common law, which emerged in England at the same time and was applied to British colonies (La Porta et al. 1997, 1998).

To be sure, the extent of national social welfare provision might also be related to the way regulatory laws are set up. As Trumbull (2010, 2012) argued, the political and economic elites in the United States supported the expansion of credit markets partly because they saw it as a social safety net. Hence, the underdevelopment of social welfare in the United States was tightly linked to and contributed to the development of a rather permissive regulatory framework of lending and borrowing. They were, in other words, complementary institutional developments.

Creditworthiness

Access to credit does not only concern nations' regulatory structures but also hinge on the characteristics of individuals who operate in the regulatory framework. While the eligibility criteria for credit products became progressively less arduous and access to credit has increased, the racial and ethnic disparities in accessing credit have persisted. Recent research by Kuebler (2012) shows, for instance, that neighborhood racial composition has a statistically significant effect on whether mortgages are approved and originated.

Fourcade and Healy's (2013) recent work offer a sophisticated analysis of how markets "see" people into different categories in terms of their "creditworthiness". In earlier times, Fourcade and Healy inform us that assessing the creditworthiness of individuals was the work of bank or retail finance officers who met potential clients in person and evaluated them based on their physical appearance, their demeanor, and even local gossip. Over time, the process became more standardized and more quantitative.[4] By the 1950s, credit reporting companies had already begun to make probabilistic forecasts based on statistical analyses of longitudinal population data. In the 1970s, credit scoring – that is, the numerical evaluation of a person's reliability and integrity based on his or her individual credit file – was formally established as an objective way of appraising somebody's creditworthiness. Fourcade and Healy note that these developments are believed to have brought a degree of fairness to the credit markets because the new system focused on individual traits rather than group credit histories.[5] Though there is evidence that these new techniques have increased access to the financial system across the board, there are still stratifying effects of differential lending based on classification. Inequities in the market are "less a matter of access to credit and abandonment, and more a matter of the differential interest rates that borrowers pay" (Langley, 2009, p. 168). Scoring has expanded the reach of the market while opening the door to the new forms of classification with powerful stratifying effects. The expansion in the supply of subprime credit market – that is, the market that provides credit to people with poor credit histories and little in down payments – reflects this. Citizens who do not qualify for conventional loans can still access credit if they were willing to pay a higher interest rate (Fligstein and Goldstein, 2010).

In the end, a consideration of both demand-side and supply-side factors illuminates why individuals take debt and why there are cross-national differences in levels of indebtedness. Changes have taken place on both sides of the equation over the past few decades as societies turned to neoliberal ideas to reorganize the state–economy relationship. Those changes are crucial in understanding and accounting for the global trend of rising household indebtedness.

The neoliberal turn and the rising household indebtedness

Notwithstanding historical differences, debt levels have increased in all advanced nations over the past few decades. Various scholars have argued that this is a part of a systemic shift away from the postwar political and economic organization of "embedded liberalism" towards neoliberalism (Montgomerie 2007, 2013; Crouch 2009; Kus 2013; Soederberg 2013).

The operation of embedded liberalism involved, in most nations, demand-led Keynesian economic policies. States made provisions for full employment and countercyclical spending during economic downturns, and high wages were seen as a stimulus to the economy by facilitating expansion through consumption (Montgomerie, 2007). This ended in the mid-1970s as a result of a stagflationary economic crisis. The crisis presented challenges to traditional ways of managing the economy in many nations. Policies and institutions associated with the postwar embedded liberalism, which once "worked", increasingly seemed to "fail" (Campbell and Pedersen, 2001; Blyth, 2002; Fourcade-Gourinchas and Babb, 2002; Kus 2006; Mudge 2008). In this context, many countries began to undertake neoliberal economic policies that emphasized monetary discipline and minimum state intervention in the economy.

Working citizens in the United States have witnessed their wages stagnate, employment become more insecure, and government services and subsidies decline in the neoliberal period since the early 1980s (Brenner 2002, p. 14–15; Montgomerie 2007, p.166). Credit has played an important role in filling the gap between households consumption aspirations and stagnant income wages (Leicht and Fitzgerald 2014a; Montgomerie 2007, 2013; Kus 2013).

Crouch (2009) also relates rising indebtedness to the demise of the embedded liberalism of the postwar period – particularly to the demise of the Keynesian policies and what he calls "privatized Keynesianism." This privatized Keynesianism had to manage "the inherent tension between the insecurity and uncertainty created by the requirements of the market for adaptation to shocks, and the need for democratic politics to respond to citizens' demands for security and predictability in their lives" (2008, p. 1). Whereas under original Keynesianism, governments took on debt to stimulate the economy; under the privatized form, individuals, particularly poor ones, took on that role by incurring debt. The basis of prosperity, he argues, "shifted from the social democratic formula of working classes supported by government intervention to the neoliberal conservative one of banks, stock exchanges and financial markets" (Crouch 2009, p. 392).

Soederberg (2013) in a similar fashion talks about a "debtfare" regime as an element of a larger neoliberal transformation and emphasizes the role of the state in this process – in naturalizing and normalizing the widespread reliance on, and discipline of, credit. According to Soederberg, the debtfare state must be understood in tandem, and in tension, with the workfare state. The workfare state is characterized by the erosion of state-sanctioned social protections and collective rights in favor of the maximization of work participation, competition, and individual responsibility because it similarly acts to reinforce the work ethic whilst increasing market dependency and discipline. The extension of credit fills, in part, the role of the social welfare system by providing individualized, market-based forms of easily accessible capital.

It is not only the needs that neoliberal politics has left increasingly unattended that led to increased debt-taking, of course. Households' desire to take on debt can increase in times of lessened uncertainty, as well (Dynan and Kohn 2007, p. 4). The late 1990s and early 2000s were characterized with high growth rates in many Western nations, particularly the United States. This logic of "good times" can make people be less precautionary and encourage them to take on debt to enjoy the niceties of life. Schor (1998) argues that although American households have always been caught up in consumerism, the drive for acquiring goods and services has become even more relentless over the past few decades. The increasing rate of product innovation and easier access to credit have allowed middle-class Americans to enjoy a variety of new products of a growing global economy (Schor 1998; Frank 2007; Cynamon and Fazzari 2008; Davis 2009). However, this has created a paradoxical condition for many middle class families in the neoliberal era – increased material welfare from more consumption yet heightened economic vulnerability from higher debt. In Schor's influential book *The Overspent American*, Rich Moroni, a former bad debt collector who later became a consumer-credit counselor, portrays this credit-reliant consumption craze as a formula for disaster: "The bottom line for most people is they just simply don't think about what kind of money they make, and what kind of lifestyle they're living. And they do want to be richer. They want to look richer than they are. If you have five credit cards that actually makes it very easy to look richer than you are. And then add merchandisers and advertisers to that, and it's a formula for disaster for a lot of people" (quoted in Schor 1998, p. 73).

On the supply side, with state regulations getting less rigid as part of the neoliberal transformation, the financial sector and credit markets have become more aggressive in the United States, as well as in other Western nations – particularly the UK, in pushing high risk loans towards citizens – particularly to those citizens in the lower end of the income distribution.

In short, these dimensions of heightened insecurities, shrinking incomes, increased demand for consumer products, and increasingly aggressive credit markets citizens became more and more indebted in advanced nations in the neoliberal era.

These developments have political implications. According to Kus (2013), this increased access to credit not only moderated the effects of real income inequalities but also lessened the political urgency of redistribution as a policy objective. Declining redistributive functions of the state along with increasing access to credit remained complementary dimensions of the neoliberal mode of inequality management. Lazzarato (2012) in a similar vein argues that debt played a role in keeping workers docile and content, even in the context of exploitation by capitalists. According to Leicht and Fitzgerald (2014a, 2014b), what seems to be at stake is the quality of American democracy – the use of debt as an instrument for supporting consumption is reminiscent of the debt peonage and serfdom of agrarian economies.

Conclusion

Recently, a vibrant field of research has begun to emerge around the questions of credit use and indebtedness. The findings are transforming our established understandings of the political economy of advanced societies. This article reviews the literature focusing on why individuals take debt, why nations have differed historically on the level of debt taken by their citizens, and why patterns have converged recently with increased indebtedness across the board. I have discussed how culture, income inequality, the extent of social safety nets, consumption patterns, and government regulations might play a role in determining the demand for and supply of credit across different nations.

The various perspectives discussed here are not necessarily at odds with each other. In fact, it is only by combining these different aspects – demand side as well as supply side, politics as well as culture, macroeconomic trends as well as micro and individual level factors – that one can get a full picture on indebtedness.

Short Biography

Basak Kus is an Assistant Professor of Sociology at Wesleyan University. She teaches courses on sociology of markets, political sociology, social mobility, and research methods. Prior to joining Wesleyan, she held postdoctoral appointments in political economy at Princeton's Niehaus Center for Globalization and Governance and Yale's MacMillan Center for International

Studies. Between 2010 and 2012, she lived in Ireland and taught public policy and political economy at the University College Dublin. Professor Kus has done research on neoliberal reforms, social policy, inequality, financialization, labor unions, and the informal economy. Her works have been published in the Socio-Economic Review, International Journal of Comparative Sociology, International Sociology, Economic and Social Review, and International Journal of Social Economics.

Notes

* Correspondence address: Basak Kus, Department of Sociology, Wesleyan University. E-mail: bkus@wesleyan.edu

1 Consumer credit made up 24 percent of American households' disposable income, and housing loans 98 percent. In the EU nations, the figures were 13 percent and 74 percent, respectively. The figures for the EU nations do not include Croatia that joined the Union in 2013. *Source: European Credit Research Institute.*

2 By "neoliberal reorganization," I broadly refer to a set of policies that promoted limited state intervention in markets, such as minimalist welfare state, low taxation, deregulation, flexible labor market policies, and reduced barriers to capital mobility (see Campbell and Pedersen, 2001).

3 Trumbull (2010) and Schwartz (2009) do not offer a cultural analysis, but one can find support for a cultural argument in their analyses.

4 See Carruthers, Guinnane and Lee, 2012; Ruef and Patterson, 2009.

5 See Marron, 2009.

References

Anderson, E. 2008. 'Experts, Ideas, and Policy Change: The Russell Sage Foundation and Small Loan Reform, 1909–1941.' *Theory and Society* **37**(3): 271–310.

Barba, A and M Pivetti.2009. 'Rising Household Debt: Its Causes and Macroeconomic Implications—a Long-Period Analysis.' *Cambridge Journal of Economics* **33**(1): 113–137.

Blyth, M. 2002. Great Transformations: Economic Ideas and Institutional Change in the

Brenner, R. 2002. *The Boom and the Bubble: The US in the World Economy*. London: Verso Books.

Brook, Y. 2007. 'The Morality of Moneylending: A Short History.' *The Objective Standard* **2**(3): 9–45.

Campbell, J and O Pedersen. 2001. *The Rise of Neo-liberalism and Institutional Analysis*. Princeton, NJ: Princeton University Press.

Carroll, C and Samwick A. 1997. 'The Nature of Precautionary Wealth.' *Journal of Monetary Economics* **40**: 41–71.

Carruthers, B, T Guinnane and Y Lee. 2012. 'Bringing "Honest Capital" to Poor Borrowers: The Passage of the U.S. Uniform Small Loan Law, 1907–1930.' *Journal of Interdisciplinary History* **42**(3): 393–418.

Castles, F. 1998. 'The Really Big Trade-off: Home Ownership and the Welfare State in the New World and the Old.' *Acta Politica* **33**(1): 5–19.

Conley, D and B Gifford. 2006. 'Home Ownership, Social Insurance, and the Welfare State.' *Sociological Forum* **21**(1): 55–82.

Crouch, C. 2009. 'Privatised Keynesianism: An Unacknowledged Policy Regime.' *The British Journal of Politics & International Relations* **11**: 382–399.

Cynamon, B and Steven M. Fazzari. 2008. 'Household Debt in the Consumer Age: Source of Growth - Risk of Collapse.' *Capitalism and Society* **3**(2): 1–30.

Davis, G (2009) *Managed by the Markets: How Finance Reshaped America*. Oxford: Oxford University Press.

DeNavas-Walt, C, B Proctor and R Mills. 2003. Income, Poverty, and Health Insurance Coverage in the United States. Current Population Reports. Washington, DC: Census Bureau.

Dobbin, F. 1997. *Forging Industrial Policy: The United States, Britain, and France in the Railway age*. Cambridge: Cambridge University Press.

Doty, M, J Edwards and A Holmgren. 2005. 'Seeing Red: Americans Driven into Debt by Medical Bills. Results from a National Survey.' *Issue Brief Commonwealth Fund* **837**, 1–12.

Dynan, K and D Kohn. 2007. The Rise in US Household Indebtedness: Causes and Consequences. Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board.

Eichengreen, B and K Mitchener. 2004. "The Great Depression as a Credit Boom Gone Wrong" in Susan Wolcott and Christopher Hanes (eds.), Research in Economic History, 22: 183–237.

Fligstein, N and A Goldstein. 2010. 'The Anatomy of the Mortgage Securitization Crisis.' *Research in the Sociology of Organizations* **30**: 29–70.

Fourcade, M and K Healy. 2013. 'Classification Situations: Life-Chances in the Neoliberal era.' *Accounting, Organizations and Society* **38**(8): 559–572.

Fourcade-Gourinchas, M and S Babb. 2002. 'The Rebirth of the Liberal Creed: Paths to Neo-Liberalism in Four Countries.' *American Journal of Sociology* **108**: 553–79.

Frank, R. 2007 *Falling Behind: How Rising Inequality Harms the Middle Class*. Berkeley, CA: University of California Press.

Germain, R. 1997. *The International Organization of Credit: States and Global Finance in the World-Economy*. Cambridge: Cambridge University Press.

Graeber, D. 2012. *Debt: The First 5,000 Years*. New York: Melville House.

Hacker, J S. 2002) *The Divided Welfare State: The Battle Over Public and Private Social Benefits in the United States*. New York: Cambridge University Press.

Hodson, R, R Dwyer and L Neilson. 2014. 'Credit Card Blues: The Middle Class and the Hidden Costs of Easy Credit.' *The Sociological Quarterly* **55**(2): 315–340.

Jones, D. 2003. *Reforming the Morality of Usury: A Study of Differences That Separated the Protestant Reformers*. Lanham, MD: University Press of America.

Kemeny, J. 1980. 'Home Ownership and Privatization.' *International Journal of Urban and Regional Research* **4**: 372–388.

Kilborn, J. 2007. *Comparative Consumer Bankruptcy*. Carolina Academic Press. Available at SSRN: http://ssrn.com/abstract=1008150

Krueger, D and F Perri. 2006. 'Does Income Inequality Lead to Consumption Inequality? Evidence And Theory.' *Review of Economic Studies* **73**(1): 163–193.

Kuebler, M. 2012. 'Lending in the Modern Era: Does Racial Composition of Neighborhoods Matter When Individuals Seek Home Financing? A Pilot Study in New England.' *City & Community* **11**: 31–50.

Kus, B. 2006. 'Neoliberalism, Institutional Change and the Welfare State: The Case of Britain and France.' *International Journal of Comparative Sociology* **47**(6): 488–525.

Kus, B. 2013. 'Consumption and Redistributive Politics: The Effect of Credit and China.' *International Journal of Comparative Sociology* **54**(3): 183–186.

La Porta, R, F Lopez-De-Silanes, A Shleifer and R Vishny. 1997. 'Legal Determinants of External Finance.' *Journal of Finance* **52**(3): 1131–1150.

La Porta, R., F Lopez-de-Silanes, A Shleifer, R Vishny. 1998. 'Law and finance.' *Journal of Political Economy* **106**: 1113–1155.

Langley, P. 2009. *The Everyday Life of Global Finance: Saving and Borrowing in Anglo-America.* Oxford: Oxford University Press.

Lazzarato, M. 2012. *The Making of the Indebted man: An Essay on the Neoliberal Condition*. Los Angeles, CA: Semiotext (e).

Leicht, K and S Fitzgerald. 2014a. 'The Real Reason 60 is the New 30: Consumer Debt and Income Insecurity in Late Middle Age.' *The Sociological Quarterly* **55**(2): 236–260.

Leicht, K and S Fitzgerald. 2014b. *Middle Class Meltdown in America: Causes, Consequences, and Remedies*. New York: Routledge.

Logemann, J. 2008. 'Different Paths to Mass Consumption: Consumer Credit in the United States and West Germany During the 1950s and '60s.' *Journal of Social History* **41**(3): 525–559.

Marron, D. 2009. *Consumer Credit in the United States: A Sociological Perspective from the 19th Century to the Present*. New York: Palgrave Macmillan.

Montgomerie, J. 2007. 'The Logic of Neo-Liberalism and the Political Economy of Consumer Debt-Led Growth.' Pp. 157–172 in *Neo-Liberalism, State Power and Global Governance*, edited by Simon Lee and Stephen Mcbride. Netherlands: Springer.

Montgomerie, J. 2009. 'The Pursuit of (Past) Happiness? Middle-Class Indebtedness and American Financialisation.' *New Political Economy* **14**(1): 1–24.

Montgomerie, J. 2013. 'America's Debt Safety-Net.' *Public Administration* **91**(4): 871–888.

Mudge, S. 2008. 'What is neo-Liberalism?' *Socio-Economic Review* **6**(4): 703–731.

Niemi-Kiesiläinen, J. 2003. 'Collective or Individual? Constructions of Debtors and Creditors in Consumer Bankruptcy.' Pp. 41–60 in *Consumer Bankruptcy in Global Perspective*, edited by J. Niemi-Kiesiläinen, I. Ramsay and W. Whitford Oxford: Hart Publishing.

Prasad, M. 2010. The Credit/Welfare State Tradeoff. SSRN. Available at: http://ssrn.com/abstract=1602204.

Prasad, M. 2012. *The Land of Too Much: American Abundance and the Paradox of Poverty*. Cambridge, MA: Harvard University Press.

Rajan, R. 2010. *The Fault Lines*. Princeton, NJ: Princeton University Press.

Ramsay, I. 2010. A Tale of Two Countries: Responding to Overindebtedness in France and the UK: 1985–2010: The Role of Interest Rate Ceilings. In Dublin Regulation Conference, Dublin, Ireland.

Ramsay, I. 2012. 'A Tale of Two Debtors: Responding to the Shock of Over-Indebtedness in England and France—A Story from the Trente Piteuses.' *Modern Law Review* **75**: 212–248.

Ruef, M, K Patterson. 2009. 'Credit and Classification: The Impact of Industry Boundaries in Nineteenth-Century America.' *Administrative Science Quarterly* **54**(3): 486–520.

Schor, J. 1998. *The Overspent American*. NewYork: Basic Books.

Schwartz, H. 2009. *Subprime Nation: American Power, Global Finance and the Housing Bubble*. Ithaca: Cornell University Press.

Schwartz, H and L Seabrooke. 2008. 'Varieties of Residential Capitalism in the International Political Economy: Old Welfare States and the New Politics of Housing.' *Comparative European Politics* **6**(3): 237–261.

Soederberg, S. 2013. 'The US Debtfare State and the Credit Card Industry: Forging Spaces of Dispossession.' *Antipode: Radical Journal of Geography* **45**(2): 493–512.

Spooner, J. 2012. 'Long Overdue: What the Belated Reform of Irish Personal Insolvency Law Tells us About Comparative Consumer Bankruptcy.' *American bankruptcy law journal* **86**(2): 243–304.

Sullivan, J. 2008. 'Borrowing during Unemployment: Unsecured Debt as a Safety Net.' *Journal of Human Resources* **43**: 2,383–412.

Sullivan, T, Warren E and J Westbrook. 2000. *The Fragile Middle Class: Americans in Debt*. New Haven: Yale University Press.

Tawney, R. 1926. *Religion and the Rise of Capitalism*. New Brunswick, NJ: Transaction publishers.

Trumbull, G. 2010. *Regulating for Legitimacy: Consumer Credit Access in France and America*. Harvard Business School.

Trumbull, G. 2012. 'Credit Access and Social Welfare: The Rise of Consumer Lending in the United States and France.' *Politics & Society* **40**(1): 9–34.

Warren, E. 2005. 'The Over-Consumption Myth and Other Tales of Law, Economics, and Morality.' *Washington University Law Quarterly* **82**: 1485.

Warren, E and Tyagi, A. 2004. *The Two Income Trap: Why Middle-Class Parents are Going Broke*. New York, NY: Basic Books.

Wassam, Clarence Wycliffe. 1908. *Salary Loan Business in New York City*. New York, N.Y.:Columbia University Libraries Electronic Books.

Wheary, J and T Draut. 2005. *The Plastic Safety Net: The Reality Behind Debt in America*. New York: Dēmos and The Center for Responsible Lending.

Further Reading

Calder, L. 1999. *Financing the American Dream: A Cultural History of Consumer Credit*. Princeton: Princeton University Press

Carruthers, B. 2013. 'From Uncertainty Toward Risk: The Case of Credit Ratings.' *Socio-Economic Review*, **12**(1): 1–27.

Grant, J. 1994 *Money of the Mind*. New York: Noonday Press.

Manning, R. 2000. *Credit Card Nation. The Consequences of America's Addiction to Credit*. New York: Basic Books.

Smith, A. 1986. *The Wealth of Nations*. New York: Penguin Classics.