Capitalism, consumer debt and social policy: A theoretical and empirical examination

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Abstract

Over the past thirty years, as the rise in the cost-of-living has outpaced earnings and the welfare state has undergone a major transformation from providing a social safety net to promoting personal responsibility, growing numbers of low- and middle-income (LMI) individuals have resorted to acquiring debt to cover living expenses. Economic policy changes that facilitated liberalization of credit products for the general public have coincided with social policy changes. These two types of policy changes, when viewed in concert, suggest the rise in personal debt must be viewed in light of the shifting roles of the market, public sector, and the individual. This paper examines the relationship between personal debt and the welfare state, across nations and within the United States. The trend of short-term borrowing by LMI individuals in the context of public spending on social benefits is examined using data from Organisation for Economic Cooperation and Development (OECD). An inverse relationship between public spending and consumer debt was predicted but did not appear. A patterning of the public spending/consumer debt types loosely based on Esping-Andersen's 1990 welfare state regime typology emerged, with liberal welfare states tending to have more consumer debt than conservative or social democratic states. In the US, credit card debt and ownership of credit cards was once a terrain occupied by the middle class. This research shows that consumer debt by social assistance recipients has risen steadily over the past 20 years. Furthermore, analyses revealed clear and significant demographic and economic behavioral characteristics of payday loan borrowers, namely that social assistance recipients are approximately three times more likely than non-recipients to take out a payday loan.

One of the most compelling contemporary social issues in the US is personal debt. A subject that is both ubiquitous and hidden, it was made painfully visible by the economic crisis of 2008. In the US, the level of consumer debt, excluding mortgages, has grown exponentially in the past 30 years, escalating from $389 billion in 1982 to $277.9 trillion in 2012 (Federal Reserve Board, 2013). Sixty-eight percent of Americans hold credit cards, 55% of these cardholders carry a balance, and the average debt burden is $7,100 (Bricker, Kennickell, Moore, & Sabelhaus, 2012). While revolving credit in the form of credit cards was once a financial instrument of the middle and upper class, 62% of low-income families now have a credit card (Stegman & Faris, 2005). Nearly half of very low-income people, defined as earning less than $15,000/year, spend more than 40% of income on servicing their non-mortgage consumer debt (Garcia, 2007). And among the poorest Americans, those with incomes low enough to qualify for the Supplemental Nutrition Program (also known as "Food Stamps"), 32% have consumer debt (Castner & Mabli, 2010).

Consumer borrowing is not limited to credit cards, but is made up of a constellation of credit instruments available to cash-strapped people: bank loans, car loans, pawnshop loans, payday loans, refund anticipation loans, and student loans. While pawnshops have enjoyed a strong foothold in the US historically, massive changes to economic policy in the 1980s and 90s liberalized consumer financial markets. The undoing of New Deal Era anti-trust policies loosened regulations in lending and ushered in an era of new credit instruments, especially for people once excluded from mainstream credit channels. Payday loans, small short-term cash loans of about $100 - $300 that are repaid on the borrower's "payday," are just such instruments. First-tier banks typically do not offer the type of small short-term loans that payday lenders do, however major banks do partner with payday lenders. Wells Fargo partners with Cash America,

one of the leading payday lenders in the country (Manning, 2000). Dependable research is limited but it is estimated that approximately 5% of people in the US, or just over 15 million have taken out at least one payday loan (Stegman, 2007).

If one of the most compelling social issues is debt, then the most compelling policy issues are those that concern the welfare state. Historically, industrial societies have developed social welfare provisions to insulate people from the effects of the market, such as for the unemployed, elderly, disabled, and others who do not, or cannot, participate in wage labor. The state provides a social safety net that protects people from the vicissitudes of capitalism caused by the shift from pre-industrial to industrial capitalism (Wilensky & Lebeaux, 1958). The level of protection depends on the extent to which policy can support de-commodification of a given society, i.e. the degree to which a person can maintain a livelihood outside of the market (Esping-Andersen, 1990). The welfare state has undergone significant changes since industrialization, and has transformed along with changes in capitalism vis-à-vis globalism, demographic variables, and other political factors (Gilbert, 2002). While the US has been characterized as having a residual (Wilensky & Lebeaux, 1967) or liberal (Esping-Anderson, 1990) welfare state that provides minimal assistance to citizens, usually in the form of means-tested programs designed for the most needy in society, the government has taken a primary role in the administration of social welfare provisions since the 1930s in such realms as child welfare, mental health, unemployment and income maintenance. Since the early 1980s, a pattern of steady retrenchment of government administration has emerged in many areas that were once the responsibility of the state. This pattern includes a shift from Keynesian state-centered social welfare programs in favor of market-based solutions to meet social welfare needs. It is characterized by the steady transformation from a passive statist, rights-based focus on income-

maintenance to a welfare state that emphasizes responsibilities and is active in promoting social inclusion through targeted programs and the recommodification of labor (Gilbert, 2002).

Very little is known, however, about the relationship between the rising levels of personal debt and changes in the welfare state. This paper explores connections between social policy changes and consumer borrowing using secondary datasets on international and domestic trends. The results provide a more nuanced understanding of the dramatic growth in personal debt, and specifically its consequences for people in poverty. The relationship between personal debt and social policy is worth exploring because it can aid in understanding the full consequences of changing social welfare policy. Each subject, personal debt and welfare state changes, has been thoroughly examined across such disciplines as sociology, economics, psychology, and political science to name a few. Examining debt *in the context* of social policy changes brings an analytic lens to bear on their relationship with each other. This approach addresses the recent call in social policy literature for researchers to study "the changing role and relationship between the market, state and individual as there will have a fundamental impact in the future direction of society. It is clear that with an ever-retreating welfare state, people will be expected to take on greater financial responsibility (Joseph & Rowlings, 2012: XX)."

This paper was inspired by the following quote:

> "If the welfare state serves as an arrangement to protect citizens from the vicissitudes of life in a capitalist economy, a fundamental change in the nature of capitalism – whether to an advanced stage or to a new form – is likely to be accompanied by a substantive change in the character of social protection (Gilbert, 2002, p. 37)."

If a change in capitalism is associated with a change in the nature of social provisions, then what are the implications of this change? The advent of a post-industrial economy and globalization mark clear changes in the nature of capitalism, with corresponding changes since the 1980s in

the provision of social welfare. A vast literature exists that examines some of the implications of this change, and considerable attention has also been paid to consumer debt, yet little has been examined using the variable of borrowing or debt as a filter to understand the dynamic market/state/individual dynamic.

In the age of welfare reform and international government austerity measures, it seems as if the mechanism to protect people from the 'vicissitudes of life in a capitalist economy' is their own ability to borrow and acquire debt. Economic subsistence occurs in three ways: paid work, social benefits, and engagement with the informal economy (such as borrowing). In a welfare state where job market activation is de rigueur and credit markets have expanded to enable the growth of a mega-industry of fringe lending possible, to what extent do people create a safety net braided with the ability to borrow?

Background: Consumer Debt

Consumer debt can be thought of as "a mismatch of resources, which may or may not be mediated by budgeting behaviour, access to capital resources and the perquisites of employment." (p. 496 in Orton, 2009). As of 2010, people in the US held $2.40 trillion in debt, $796.5 billion of which is held as credit card debt (Federal Reserve, 2011). With 54 million households having credit cards, the average debt load per household is $7,100. Credit markets expanded considerably over the past thirty years, but tightened after the 2007 recession. Credit card debt dropped significantly from 2008 to 2009, as less people were able to access credit (Federal Reserve, 2009). There is speculation that this change might have been more attributable to credit card companies writing off debt as losses rather than careful spending and austerity on the part of consumers (Hauser, 2010). Household debt has risen steadily for several countries

over the last 15 years (OECD 2010a). In 2008, debt had risen to 120% of household income in the US, Canada, United Kingdom and Japan (OECD, 2010b).

As credit products in mainstream areas have become more steadily available to Americans, so have credit products in the fringe economy. Fringe banking describes the arena of financial services that enables people with bad or no credit and without access to mainstream financial institutions to obtain money. While mainstream financial services are provided by commercial banks, savings and loan institutions, title companies, and credit unions, fringe financial services, such as check cashing, payday loans, sub-prime mortgages, rent-to-own merchandise, refund anticipation loans, car-title loans and pawn shop loans, are primarily used by people who do not qualify for, or wish to use, mainstream financial services. Institutional policy and individual decisions combine to create a 2-tier banking system where the poor have fewer choices, pay more for financial services, and have fewer protections than other Americans as access to mainstream banking is blocked to low-income communities due to high fees, minimum-balance requirements on accounts, and lack of branches in these communities (Blank, & Barr, 2009).

Low-income communities in the US have faced a history of financial marginalization and exploitation. Financial marginalization was carried out during the decades following World War II by the de facto policy of "redlining," or the systematic exclusion of poor people's access to mainstream financial credit. With the help of government intervention and specifically the passage of the Community Reinvestment Act (CRA) in 1977 and its subsequent additions, discrimination against poor people and people of color, in lending has diminished considerably. The problem of financial exclusion, however, has now given way to financial exploitation: a contemporary swelling of "reverse redlining" (Squires, 2003) as exemplified in second-tier credit

services that proliferate in low-income communities. While redlining was about preventing access to regulated credit products, such as Federal Housing Authority subsidized mortgage loans, reverse-redlining is characterized by extensive access to unregulated, and some say predatory, credit products such as payday loans. This new wave of financial marginalization has been called "fringe banking" (Karger, 2004) and "predatory lending" (Squires, 2003) and as such, this paper will use these terms interchangeably. What unites the two phenomena of redlining and fringe banking is that poor communities have been the targets of both, and what used to be a landscape heavy with financial exclusion has now become a landscape of financial exploitation.

People who borrow from fringe lenders tend to be low-to middle-income, and money paid in high fees and interest drain assets from the individual and household (Coclanis, 2001). Low-income households who use fringe banking pay more for services that middle-class Americans take for granted (Bates, & Dunham, 2003). On a community level, because fringe lenders are not subject to the Community Reinvestment Act of 1974 (CRA), they are not required to contribute to the development of the community within which they reside. Fringe bankers tend to be located in low-to-moderate income communities, especially communities of color. Advocates for fringe banking argue that these services meet a necessary need (Community Financial Services Association of America, n.d.), one that has been historically met by loan sharks or other underground lenders in the absence of mainstream bank access.

Theoretical Analysis

My paper advances the argument that an analysis of consumer debt must include a contextualization of such debt within the larger framework of shifting responsibility between the individual, state, and the market. By suggesting that consumer debt be understood as a

phenomenon that is responsive to larger social forces that may influence individual behavior, this line of analysis both compliments and extends the popular agency-based interpretations. From the agency-based perspective, consumer debt is a problem of over-consumption and individuals' lack of willpower, future time orientation, and inability to set and maintain goals. Furthermore, I seek to expand structural understandings of consumer debt that focus on the interplay between declining wages, rising costs, and expanding credit markets. The framework to understand the relationship between the key variables of interest rests on placing agency-based behavior of consumer debt within the structural context of *neoliberalism* and its influence on the welfare state, as well as theories of risk-shifting.

An examination of consumer debt cannot be divorced from the context of macro-level social policy changes. I am not making causal claims regarding this relationship, i.e. that social policy changes have caused consumer debt to rise, but rather, a shared mechanism, or set of mechanisms, is at play that influences both of them. Consumer debt tends to be treated as a personal problem on one hand, or the result of a constellation of structural forces, on the other: wages not keeping pace with prices, the need for people to utilize multiple strategies to make ends meet, and credit markets that have rapidly expanded. Over a century of economic policy decisions that spanned from the regulation of the 1930s to the deregulation of the 1980s and '90s have resulted in a swollen credit market replete with borrowing options for consumers at the very same period of time in history that public provision for social policy protection in welfare states had initially expanded and then contracted.

Neoliberalism is an overarching theory that helps us understand social and economic policy changes of the past 30 years. It is the prevailing economic paradigm in many parts of the world in the late 20th century, and is expressed through free trade, privatization of public

services, and the belief in the market as the ultimate expression and provider of human freedom. The significance of this paradigm is that it permeates most, if not all, spheres of contemporary life, from macroeconomic planning to intimate social relations, and as such, exerts a significant amount of influence on both the evolution of the American welfare state and economic policy. When social policy favors market-based welfare solutions in place of government-run interventions, it is clear that neoliberalism, with core features such as individualism, choice, rationality, self-interest, and trust in the market to solve social problems, has shaped the contemporary welfare state. A welfare state with such neoliberal features represents a radical shift away from the institutionalism of the early and mid-20th century.

Neoliberal theory exerts considerable influence on social welfare policy and practice, and this has important implications for the evolution of the welfare state, public responsibility, and citizenship. The trend toward social policy that reflects neoliberal values represents a change in the role that the market plays in providing a safety net for citizens to insulate them from shocks caused by the market itself. Historically, industrial societies have developed social welfare provisions to insulate people from the effects of the market, such as for the unemployed, elderly, disabled, and others who do not, or cannot, participate in wage labor. While the US has been characterized as having a residual (Wilensky & Lebeaux, 1965) or liberal (Esping-Anderson, 1990) welfare state that provides minimal assistance to citizens, usually in the form of means-tested programs designed for the most needy in society, the government has taken a primary role in the administration of social welfare provisions since the 1930s in such realms as child welfare, mental health, unemployment and income maintenance. Since the early 1980s, a pattern of a steady retrenchment of government administration has emerged in many areas that were once the responsibility of the state. This pattern includes a remarkable shift from Keynesian state-

centered social welfare programs in favor of market-based solutions to meet social welfare needs. It is precisely this focus on the market as a way social welfare can be managed and administered that shows the influence of neoliberalism as the normative welfare theory of the contemporary American welfare state. Ultimately, when the state shares responsibility with the private sector for social welfare functions, the fundamental assumption of citizenship in terms of equality of social rights may be undermined (Marshall, 1950).

Most of the major thinkers in the field of social policy assert that there is a tension in society regarding the provision of social welfare, and specifically that this tension exists either between industrialization and welfare, economic growth and welfare, or capitalism and welfare (Esping-Andersen, 1990; Gilbert, 2004; Wilensky & Lebeaux, 1965). Functional theories of the welfare state comprise a sub-field of welfare state theory, and concern the origins and essential function of the modern welfare state. A foundational tenant of this theory is that the state provides a social safety net that protects people from capitalism caused by the shift from pre-industrial to industrial capitalism (Wilensky and Lebeaux, 1965), and that programs should be an adjunct to the market to rectify problems caused by the market, stopping short of eradicating the market itself (Titmuss, 1987; Walker, 1983). The level of protection depends on the commodification of a given society, i.e. the degree to which a person can maintain a livelihood outside of the market (Esping-Andersen, 1990). In these and many other ways, the welfare state has competing aims and complementary functions (Walker & Wong, 2004).

The welfare state has undergone significant changes since industrialization, and has adjusted along with changes in capitalism vis-à-vis globalism, demographic variables, and other political factors (Gilbert, 2002). Depending on the analysis, these changes have been considered a transformation (Gilbert, 2004), a crisis (O'Connor, 1973; Taylor-Gooby, 2001), *not* a crisis

(Castles, 2004), and a modernization (Pierson, 2001), among other characterizations. The extent to which welfare states have retrenched is also the subject of debate in the social policy literature, with those who reject the claim that globalization is a fundamental threat to the welfare state (see Pierson, 2001) and those who measure welfare state changes as evidence of steady retrenchment (Goldberg & Rosenthal, 2002).

One function of the welfare state is to ensure a safety net for the economic survival of citizens outside the market in the form of a basic floor of income. This safety net has changed in two divergent ways: first for the poor, sick, disabled and elderly and second for the unemployed. From the 1930s until the early 1980s, income maintenance programs, vis-à-vis Aid to Families with Dependent Children (AFDC), Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI), financially supported people who could not or did not engage in market-based labor due to child-rearing responsibilities, sickness, disability, or old age. In the last thirty years, these provisions have changed considerably, both in their nature and in their delivery; they have become increasingly tied to engagement in the market, as in the case of AFDC's transition to Temporary Aid to Needy Families (TANF), which ended the entitlement to income support, and through tightened restrictions regarding SSDI and SSI. While there is debate over the extent to which the welfare state has become retrenched per se, it is clear the welfare state policy has trended toward targeting and market-based solutions to poverty (Gilbert, 2004).

At the same time that the public safety net has contracted for the poor and disabled, it has expanded regarding unemployment. Before the 2007 recession, unemployment in the US was approximately 5.5% for the previous decade. With the start of the recession, it hit a high of approximately 9.5% (US Department of Labor, 2012). As of March 2013 it has dropped to 7.6%

(US Department of Labor, 2013). There are wide variations between demographic groups and by age: as of March 2013, overall African-American unemployment is 13.3% and for Latinos, 9.2% Official measures of unemployment tend be very specific and may hide discouraged workers, drastically underreporting the actual occurrence. The number of involuntary part-time workers is estimated to be 7.6 million and the number of discouraged workers is 803,000 (US Department of Labor, 2013). As unemployment grew, so did corresponding unemployment benefits, specifically in terms of length of benefit period. Before the recession, unemployment benefits ended after 26 months, but with the Emergency Unemployment Compensation Act, this has been extended significantly, up to 99 weeks for employees in some parts of the country.

Many contemporary social welfare policy strategies in the US have compelling theoretical connections with neoliberal theory, and the substantial presence of such connections reflect the normative influence of neoliberalism across various fields in social welfare. A neoliberal-leaning ideological climate posed serious challenges to public entities to solve human problems and meet needs (Castles & Pierson, 2010). Individually-centered and market-based social welfare strategies have emerged since the 1980s and are especially apparent in the areas of child welfare, housing, employment, and welfare programs. Major principles that comprise neoliberal theory are evident in the following social services strategies: welfare capitalism, privatization, contracting, individual savings strategies, vouchers, consumer-directed spending, and labor market activation. When viewed together, they demonstrate the extent to which neoliberal principles, such as individually-based natural rights and free will, freedom of choice, rationality, self-interest, non-intervention of the state and the reliance on market-driven solutions to solve social problems have shaped the current landscape of social services in the US.

Over the past 50 years, there has been a risk shift from one that is collectively shared to one that is individually shouldered. This shift has been constructed and engineered by the right, co-opted by the left, and unquestioned by the mainstream (Hacker, 2006). Hacker examines how risk has shifted from one that is collectively-based on the part of government and/or private sector to one that is shouldered by individuals. The employer who offers health insurance, retirement benefits, and a livable wage to employees is actually taking a huge risk that this employee will be a loyal, hard worker who will contribute back to the company. What were once working-class problems, such as "lack of health insurance and access to guaranteed pensions, job insecurity and staggering personal debt, bankruptcy and home foreclosure -- have crept up the income ladder to become an increasingly normal part of middle-class life (Hacker, 2006,p. xii)." A foundation of economic security is necessary to spawn real investment and growth, but risk has been moved from public and corporate sectors to individuals and families. The argument embodies a not uncontroversial ideal of welfare states working in unison with corporate America with a commitment to economic security/faith in economic opportunity. The author writes, "Animating this vision was a conviction that a strong economy and society hinged on basic financial security, on the guarantee that those who worked hard and did right by their families had a true safety net when disaster struck . . . . Today, the message is starkly different: *You are on your own"* (Hacker, 2006, p. xvi). The psychology of insecurity is crucial, for it motivates many of our personal and social responses to risk -- responses that can be either positive (buying insurance, building up private savings, forming a family) or negative (suffering anxiety, withdrawing from social life, postponing investments in the future because of fear of loss). As other scholars have pointed out (see Tversky & Kahneman, 1974), downward mobility is more painful that upward mobility is pleasurable, which results in a highly risk-averse and more

cautious populace. Therefore, people will pay more to retain something than it cost to buy it in the first place, which explains why insurance is such a popular government program but welfare is not.

It is within such structural conditions as neoliberal-influenced welfare state changes and shifting risk that the individual operates and makes decisions, especially about how to generate income. In all countries and in all types of economies, people draw on a variety of sources to ensure their families' livelihoods. There are three main realms in which these pursuits operate: the formal economy, social welfare provisions, and the informal economy. The formal economy encompasses paid labor that fits the rules and regulations of a given state, including paying taxes and participating in policies commensurate with a country's institutional structure. Social welfare provisions are comprised of cash and in-kind goods and services provided by a myriad of organizations: the welfare state itself, non-profit and for-profit organizations, and charitable organizations. Finally, the informal economy is a diverse array of mechanisms in which people secure resources, such as off-the-books legal work, illegal work, trade and support through social networks, and use of credit/borrowing (Portes, Castells, & Benton, 1989). It is theorized that when one cannot be sustained through formal work, one will turn to acquiring resources through the informal economy (Hirschman, 1970).

I contend that personal debt is intrinsically tied to welfare state retrenchment and other changes of the social safety net, and has been bolstered by a history in the US of opening of credit markets for personal consumption based on banking deregulation. The state, and the corporatist-aspect of the welfare state, which had a significant amount of safety net-type strategies built into worker's jobs in the Keynesian welfare state, has become entrenched and less able to buffer people from the shocks of the market. In many ways, it represents a triumph of

capitalism (see Degen, 2008) within the constraints imposed by democracy. Indeed, the goals of capitalism are difficult to reconcile with the goals of democracy. Crouch (2009), articulates (p. 384):

> In those countries where capitalism was moving into full partnership with electoral democracy, it was acquiring a new vulnerability. In a fully free market, wages and employment were likely to fluctuate; would workers, who were dependent on their incomes for their level of living and lacked the cushion of wealth of propertied classes, be confident enough to consume at levels adequate to enable capitalists themselves to sustain confidence to invest and maintain profit levels?

In the 1970s, however, with the start of globalization, inflation combined with stagnating wages to weaken the welfare state and produce consumer insecurity. The key to keeping such economies afloat was the neoliberal social and economic policies of the 1980s, but these policies threatened overall economic stability, especially concerning consumption. Crouch (2009) identifies the role of credit markets in this calculus: ". . . two things came together to rescue the neoliberal model from the instability that would otherwise have been its fate: the growth of credit markets for the poor and middle-income people, and of derivatives and futures markets among the very wealthy" (p. 390). He calls this approach "Privatised Keynesianism" (Keynesianism's "privatised mutant", p. 394), and argues that these policies produced economic effects that stimulated the economy, similar to original Keynesianism, but with the responsibility of individuals to go into debt to promote economic stability. Borrowing capabilities were made possible through the introduction of both high- and low-end financial services that kept the economy robust until the financial crisis of 2008. Crouch articulates, "This explains the great puzzle of the period: how did moderately paid American workers in particular, who have little legal security against instant dismissal from their jobs, and salaries that might remain static for several years, maintain consumer confidence, when continental European workers with more-or-

less secure jobs and annually rising incomes were bringing their economies to a halt by their unwillingness to spend?" (p. 390).

The connection with the welfare state is evident. If, according to functionalist theories of the welfare state, the foundation of social policy is that the state provides a social safety net that protects people from capitalism (Wilensky and Lebeaux, 1965), and if that protection undergoes changes that threaten the very nature of it, other mechanisms must ensure economic stability, for both individuals and the larger state. Constant and stable economic growth from industrial production, a dominant family structure where young, frail and old are cared for, Keynesian government policies which kept unemployment low with an in-tact safety net, and a strong and politically-charged working class are things of the past. The government no longer runs the economy in such a way that allows families to do the caretaking and business to provide decent, secure and stable jobs, and this produces new social risks related to the social/economic change to a post-industrial society (Taylor-Gooby, 2010). This statement very much echoes Polanyi's critique of market liberalism: "The economic advantages of a free labor market could not make up for the social destruction caused by it" (2001/1944, p. 81). In the age of welfare reform and international government austerity measures, what if the mechanism to protect people from the 'vicissitudes of life in a capitalist economy' is their own ability to borrow and acquire debt? Economic policy changes that facilitated liberalization of credit products for the general public have coincided with social policy changes, including welfare reform. These two types of policy changes, when viewed in concert with each other, suggest the rise in personal debt must be viewed in light of the shifting roles of the market, public sector, and the individual in order to have a fuller understanding of each social phenomenon.

Empirical Analysis

International Analysis

The study design utilized a quantitative analysis of secondary cross-sectional time-series data from the online website OECD.Stat, which allows public access to a range of data and databases on Organisation for Economic Co-Operation and Development (OECD) member countries (OECD.Stat, 2013). Currently, there are 34 countries in the OECD. Because complete data were not available for all member countries, the sample consists of 17 countries from North America, Europe, and the Antipodes (Appendix A).

Research Question 1: *Among industrialized welfare states, to what extent is there a discernable relationship between public spending on working-age social policy benefits and levels of short-term household debt?*

Research Question 2: *Do patterns of debt and social spending vary by regime type?*

The dependent variable in this analysis is *short-term household debt*, and is defined in the OECD database as any loan taken out for one year or less, including revolving loans (e.g. credit cards) and nonrevolving consumer credit, (e.g. automobile loans up to one year, student loans up to one year, and other short-term loans up to one year) for consumer durables (OECD.Stat, 2013). Excluded from this variable are mortgage loans, second mortgage loans, long-term student loans, and other long-term loans that extend over the span of one year. The data were measured in units of "millions of national currency, current prices" (OECD, 2013). The independent variable in the first research question is *public social spending on working-age population,* and is derived from the OECD's "Social Expenditure Database" (SOCX), and was selected because it contained the most inclusive measures of income maintenance support (Appendix B). Narrowing this focus, the independent variable for question #2 considers only family benefits as a more inclusive measure impacted by unemployment rates.

For ease of comparison, I examined data in % of GDP. This dataset was customized to only include data on public (vs. private) sources of social expenditure in social welfare branches that provided social protection for working-age adults, as well as to only include the 17 countries of interest for the years 1995 - 2007. Measures of central tendency were calculated for each variable to examine the relationship between spending on social welfare (both for the working-age population and for families) and levels of household debt. A simple trend-line analysis was performed to see if there was a linear relationship between debt and social spending. The data were then disaggregated and the relationship between the variables was tested using a mixed-effects multiple linear regression model with categorical and continuous independent variables (Appendix C). Fixed and random effects models are effective to use on repeated measures (or longitudinal/panel data) when the categories share unobserved effects (Verbeke, Molenberghs, & Rizopoulos, 2010).

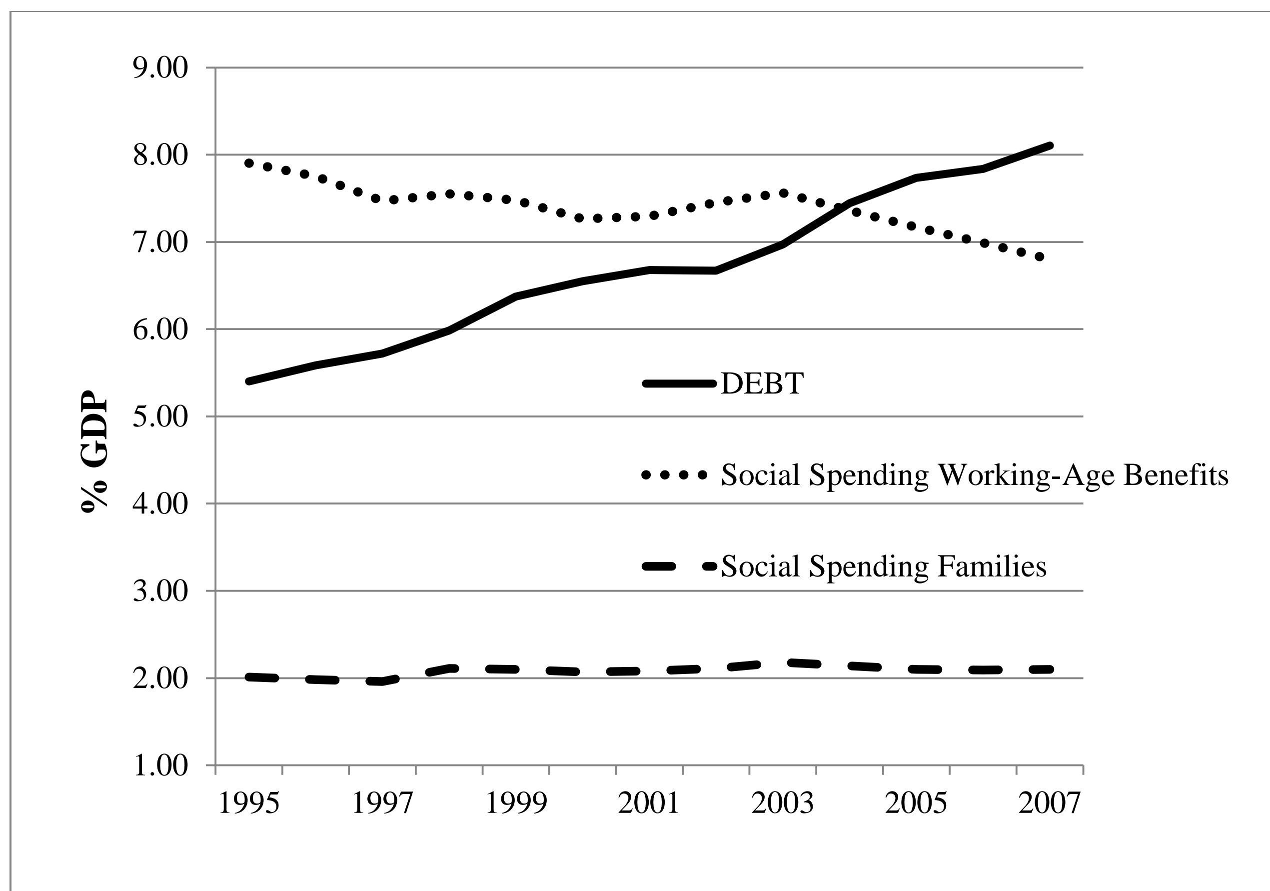
Results: International analysis

In the 17-country sample, the average level of short-term household debt rose from 5.4% to 8.1% (of GDP) from 1995 – 2007, an increase of about 50%. The range between minimum and maximum levels of household short-term debt widened, with the greatest change occurring on the upper bound, which increased from 19.18% to 25.79% (of GDP). The extent of the variation between countries by year is considerable. While the average debt as % GDP is approximately 3 – 8% GDP over the 12 year period, the number of outliers is substantial, and serves to pull up the average. From 1995 – 2007, the vast majority of countries had average short-term household debt that remained under 10% GDP, with four exceptions; Austria, Canada, the United Kingdom, and the US all had average short-term household debt that started in 1995 at a rate of over 10% GDP, and all increased this percentage with the steepest climbs

occurring in Austria and Canada. In countries with debt levels below 10%, Denmark and Greece experienced the most increase. Average social spending on the working age population declined among the sample from 1995 – 2007, from 7.9% to 6.8% of GDP. Variation between the countries diminished considerably from a 10.5% variance in 1995 to a 5.6% variance in 2007. While the average social spending on the working age population across all countries for all years hovered around 7%, there were several outliers of countries who spent above 13% on these benefits. Most countries stayed flat in terms of the % GDP spent on benefits for the working age population while several of the most generous spenders declined. Denmark, the Netherlands, and Norway are countries that were the most generous spenders on working-age benefits in 1995, while also experiencing significant declines in spending over the course of this study's analysis. Countries that had the widest variation in social spending on the working age population were Denmark, the Netherlands, Norway and the Slovak Republic.

In the aggregate, the 17-country sample averaged an increase in debt and a modest decrease in social spending on working-age people. Most countries (14/17) experienced increases in short-term household debt over the 12-year period of the study. Twelve countries spent less on working-age social benefits. We can see evidence of a general trend of increasing debt and flat or decreasing spending on social benefits from 1995 - 2007 (Figure 1).

Figure 1. Line Graph Showing Aggregate Relationship between Consumer Debt and Social Spending.



Note: This figure shows average social spending on working-age people and families, and short-term household debt as % GDP in 17 OECD countries.

There appears to be an inverse relationship between social spending and household debt in the analysis of aggregate data, but one can see a high degree of variation between countries with both variables. The disaggregated mixed-effects model, however, shows that a change in public social spending on working-age benefits did not significantly predict the change in household debt (Tables 1 & 2).

Table 1. Mixed Effects Regression Analysis of Change in Household Debt by Change in Social Spending, and the Interaction between Country and Social Spending

Independent Variable	*B*	*Z*	*p*
Change in social spending	0.004	0.02	0.981

Note. Numbers rounded to the nearest thousandth.

Table 2. Random Effects Parameters of Country & Country/Social Spending Interaction

	Estimate	Standard Error	[95% Confidence Interval]
Country *SD*	3.75	.99	[2.23 – 6.31]
Country/Social Spending Interaction *SD*	1.64e-12	7.84e-12	[1.38e-16 – 1.94e-08]
Residuals *SD*	9.52	.49	[8.60 – 10.54]

Note: *SD* stands for Standard Deviation; all figures are rounded to the nearest hundredth.

The countries in this study's sample represent a variety of welfare state types, in the sense of Esping-Andersen's (1990) analysis of three major welfare regimes: liberal, conservative, and social democratic (Appendix D). The sample also includes several countries that were not included in his analysis, such as the Czech Republic, Greece, Portugal, Spain and the Slovak Republic. Southern European nations were notably absent from the Esping-Andersen typology (see Ferrara, 1996).While the Esping-Andersen typology has been rightfully critiqued for its narrow focus on income-maintenance programs, specifically those that benefit the male bread-winner (see Bambra, 2004; Arts & Gellison, 2002; for a response, see Esping-Andersen, 1999), it is nonetheless useful as a general framework to compare how the sample may express patterns that bear a semblance to an established welfare state typology.

There is a wide degree of variation in changes in short-term household debt and social spending on the working-age population across the sample. Examining this using the names of the countries in place of dots, it is clear that the clusters are country-specific, with little variation

within a country. When the graph is split into sections by % GDP spent on household debt and social spending, we can see that there is loose patterning among countries. Many countries fall along one hemisphere or the other in this typology. For example, Belgium, France, New Zealand, Norway and Spain, fall in the hemisphere of low debt but are in the middle range regarding social spending. Countries with short-term household debt over 10% GDP are Austria, Canada, the United Kingdom and the US, countries that are squarely within the "liberal" regime type (Table 3).

Table 3. Grouping of countries by debt and social spending on working-age benefits

		Spending on Working-Age Social Benefits		
		Low (< 5% GDP)	Medium (5% to 10% GDP)	High (> 10% GDP)
Household Debt	Low (< 10% GDP)	n/a	France (C) Germany (C) Belgium (C) New Zealand (L) Australia (L)	Denmark (SD) Netherlands (C) Norway (SD)
	High (> 10% GDP)	United States (L)	Austria Canada (L) United Kingdom (L)	n/a

Note: Liberal = (L), Conservative = (C), Social Democratic (SD); The sample countries of the Czech Republic, Greece, Portugal, Spain and the Slovak Republic were not included in Esping-Andersen's original 1990 welfare state typology.

There is a wide degree of variation in changes in short-term household debt and social spending on families across the sample. Visibly, there is substantial variation amongst the countries by years, with several clusters present (Appendix E). Examining this using the names of the countries in place of dots, it is clear that the clusters are country-specific, with little variation within a countries. When the graph is split into sections by % GDP spent on household debt and social spending, we can see that there is loose patterning among countries. Many countries fall along one hemisphere or the other in this typology. For example, Belgium, France, New Zealand, Norway and Spain, fall in the hemisphere of low debt but are in the middle range regarding social spending. Countries with short-term household debt over 10% GDP are Austria, Canada, the United Kingdom and the US, countries that are squarely within the "liberal" regime type. Further analysis is needed to establish empirical evidence for clustering around regime type.

Results: Debt Among Recipients of Social Assistance

During the 1990s and early 2000s, credit markets for poor people rapidly expanded, with credit cards being newly available to people with bad or no credit. Previous research on welfare recipients and consumer credit found that people on the Temporary Aid to Needy Families (TANF) program are more likely to carry credit-card balances compared with other low-income families (Stegman & Faris, 2005).

Credit card ownership and use

To understand changes in social assistance recipients' debt levels and ownership of credit cards, I employed a cross-sectional design and descriptive and inferential quantitative methods using secondary data from the Survey of Consumer Finances (SCF). The SCF is a cross-sectional

data set sponsored by the Federal Reserve Board in collaboration with the US Treasury Department that is delivered every three years. It collects financial information on approximately 4,500 families in the US on issues such as income, pension, spending, debt, and the use of financial services.

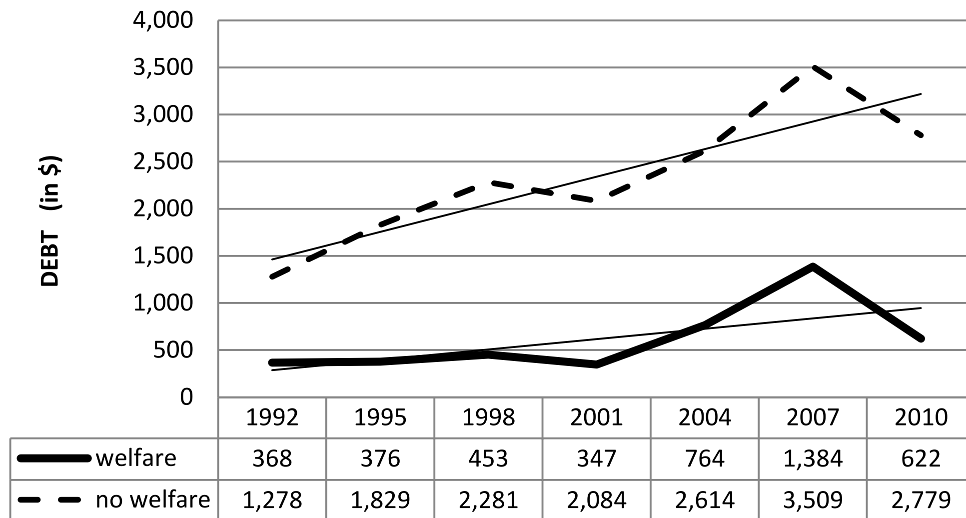
> Research Question 1: What are the patterns of credit card debt among recipients of social assistance benefits over the past 20 years?
>
> Research Question 2: What are the patterns of credit card ownership recipients of social assistance benefits over the past 20 years?

The primary explanatory variable in this study is receipt of social assistance. This is measured in all years of the SCF as a "yes" answer to the question: *"Did you (or anyone else) have income from TANF, food stamps, or other forms of welfare or assistance such as SSI?"* The wording of this question indicates that it is a household-level variable, as the respondent, the respondent's partner, or anyone else in the household (such as a child or other relative) could collect a form of social assistance. In the case of the SCF, the term "welfare" is considered broadly to include income maintenance (TANF), income maintenance for people with a disability who do not have a work history (SSI), supplemental nutrition assistance aka SNAP (Food Stamps), or another source of income that the respondent deems to be a form of welfare. This study, however, uses the term "social assistance" instead of "welfare" to show the inclusion of the food stamp program and to differentiate it as a group of means-tested targeted programs as opposed to publicly-run social insurance programs, such as the Old Age, Survivors and Disability Insurance program (OASDI).

The average amount of credit card debt held by a household who claimed social assistance benefits rose only slightly between 1992 and 1998, and then dropped in 2001 to a

level below that of 1992 (Figure 2), which follows a credit contraction during a recession, in this case, the short recession of 2001 (National Bureau of Economic Research, 2001). This indicates that the 1996 PRWORA was not associated with increased levels of personal debt among social assistance recipients. Looking beyond 2001, however, credit card debt rose steadily among these households, peaking in 2007 and then declining in 2010. This pattern mimics credit card debt held by households without recipients of social assistance.

Figure 2. Average Debt Levels Of Households With Recipients Of Social Assistance And Households Without Recipients Of Social Assistance, 1992- 2010.



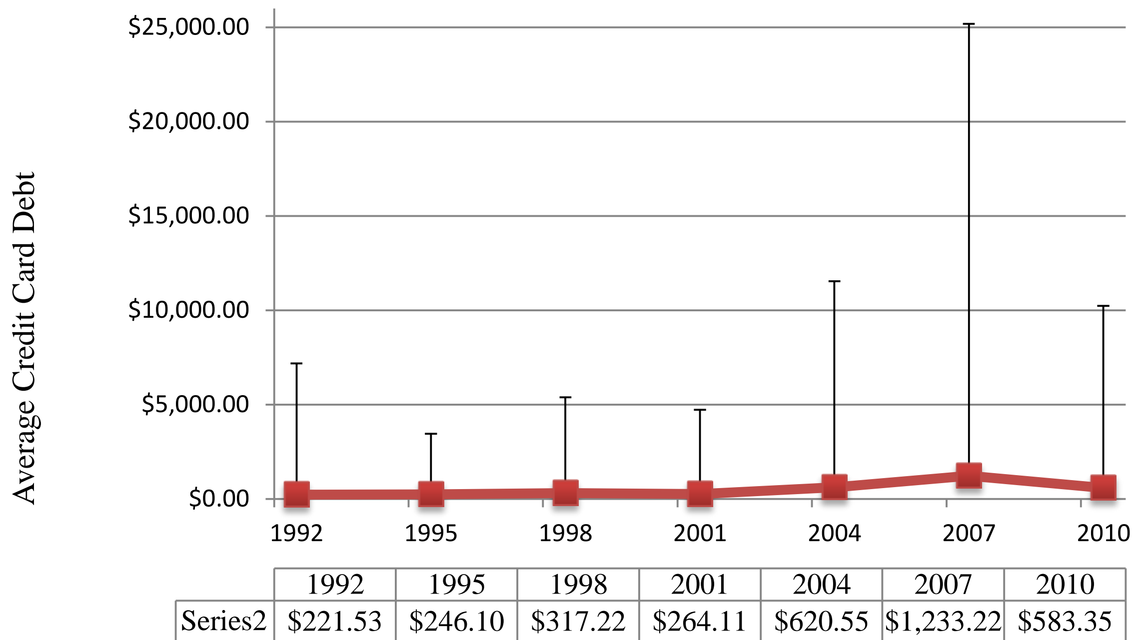
	1992	1995	1998	2001	2004	2007	2010
welfare	368	376	453	347	764	1,384	622
no welfare	1,278	1,829	2,281	2,084	2,614	3,509	2,779

Note: Figures for mean debt given in 2013 dollars (adjusted for inflation). [a]Households with recipients of social assistance are considered survey respondents who answered "yes" to the question, "Did you (or anyone else) have income from TANF, food stamps, or other forms of welfare or assistance such as SSI?"

Not only did average credit card debt rise among households with people receiving social assistance until 2007, but the standard deviations of these means doubled from 2001 to 2004 and then again from 2004 to 2007 where it peaked to nearly $24,000. When viewed graphically, the means and positive standard deviations of credit card debt in households with welfare recipients shows a dramatic rise in the range of credit card debt (Figure 3). While the means stayed

somewhat steady or even declined slightly, they rose considerably in 2004 and exploded in 2007 before retreating down to 2004 levels in 2007.

Figure 3. Mean And Standard Deviation Plot Of Averages And Positive Standard Deviations Of Credit Card Debt By Households That Receive Social Assistance.



	1992	1995	1998	2001	2004	2007	2010
Series2	$221.53	$246.10	$317.22	$264.11	$620.55	$1,233.22	$583.35

Note: Numbers for mean debt given in dollar amounts corresponding to the year of the survey, and are not adjusted for inflation.

Households with welfare recipients have significantly lower levels of credit card ownership than households without recipients of social assistance (Table 4). Ownership of credit cards by a household who claimed such benefits rose steadily between 1992 (23.3%) and 2007 (32.4%), shadowing the overall trend for credit card debt. In 2010, however, it dropped to a level similar to that of 1992. In 1992, the likelihood that a social assistance recipient owned a credit card was 9.3%. This probability rose somewhat steadily overall and peaked at 14.6% in 2004. After the financial crisis of 2008, the likelihood of a recipient of social assistance owning a credit card dropped to 11.8%.

Table 4. Log Odds, Standard Errors, Odds Ratios, And F Statistics Of Owning Credit Cards By Recipients Of Social Assistance, 1992 – 2010

Year	*B*	*SE B*	e^B	F
1992	-2.375***	0.134	0.093	210.60
1995	-2.446***	0.142	0.087	297.34
1998	-2.191***	0.161	0.112	185.02
2001	-2.296***	0.163	0.101	197.79
2004	-2.073***	0.146	0.146	200.72
2007	-1.952***	0.135	0.142	208.68
2010	-2.140***	0.100	0.118	451.91

Note: *p < .05. **p < .01. ***p < .001.

Payday Loan Borrowing

To understand the characteristics and behavior of payday loan borrowers, I employ descriptive and inferential quantitative methods using a secondary dataset. Outside the payday loan industry, very little is known about people who use payday loans. With the public release of the 2007 Survey of Consumer Finances (SCF) in 2010, data for the first time is available to researchers. Detailed description of the SCF is located earlier in this paper and has been omitted to eliminate redundancy.

Research Question 1: Compared with non-borrowers, are payday loan borrowers more likely to receive social assistance benefits?

Research Question 2: Has the number of payday loan borrowers changed between the 2007 and 2010?

The odds of a welfare recipient taking out a payday loan are three times higher than that of a non-recipient (Table 5).

Table 5. Summary of Logistic Regression Analysis for Social Assistance Variable Predicting Payday Loan Borrowing, 2007 SCF

Predictor	*B*	*SE B*	e^B
Social Assistance [a]	1.17***	0.28	3.23
Constant	-3.90	0.14	0.02
F = *17.11*			
Df = *4416*			

Note: *B* = coefficient (given in log odds). e^B = exponentiated *B*. [a] "Social Assistance" coded as 1 for yes and 0 for no. Figures rounded to the nearest hundredth. *p < .05. **p < .01. ***p < .001.

By 2010, this figure had changed to less than three times more likely (Table 6).

Table 6. Summary of Logistic Regression Analysis for Social Assistance Variable Predicting Payday Loan Borrowing, 2010 SCF

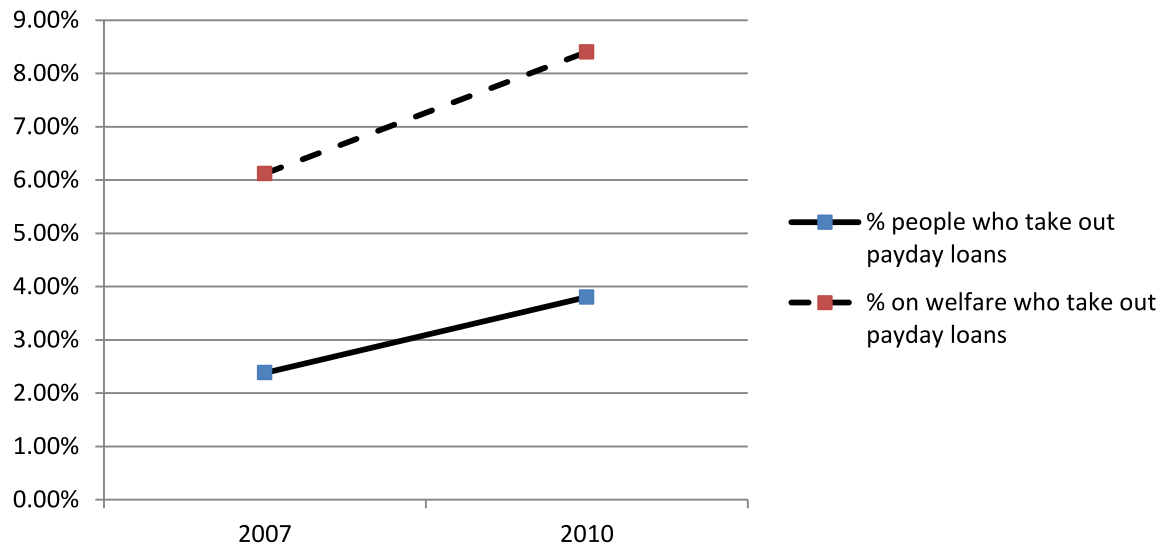
Predictor	*B*	*SE B*	e^B
Social Assistance	0.99***	0.16	2.70
Constant	-3.38	0.08	0.03
F = *17.11*			
Df = *4416*			

Note: *B* = coefficient (given in log odds). e^B = exponentiated *B*. [a] "Social Assistance" coded as 1 for yes and 0 for no. Figures rounded to the nearest hundredth.

*p < .05. **p < .01. ***p < .001.

Approximately six percent of people on social assistance reported taking out a payday loan in 2007, and this rose to 8.4% in 2010 (Figure 4). In comparison, for the general sample, only 2.4% reported taking out such a loan in 2007, and this increased to 3.8% in 2010.

Figure 4. Percentage Of People On Social Assistance And In The General Population Who Take Out A Payday Loan In 2007 And 2010.



Limitations

There were several limitations to this study. First, a limitation of the international analysis is how debt and social spending were measured. I examined only short-term loans (such as borrowing from credit cards and other consumer, auto, and student loans of less than one year), and may have excluded the significance of other types of borrowing by consumers in OECD countries, specifically borrowing against one's mortgage. Furthermore, by examining only spending on working-age people for income-maintenance purposes, I may have missed how spending fluctuated across areas, such as health or retirement. Spending on unemployment benefits, which was included in the analysis, may be an exogenous factor, and may not reflect

welfare state generosity as much as poor economic conditions. Second, regarding the analyses that used the SCF, self-reports from survey data can overestimate, underestimate, or otherwise distort behavior, attitudes, and relationships due to social desirability bias. The cross-sectional nature of the study does not capture patterns of credit card ownership and debt in individual households over time.

Discussion

Aggregate indicators suggest a strong inverse relationship between short-term household debt and social spending on both working-age and family benefits. A more rigorous analysis showed no statistically significant association between short-term household debt and either of the measures of social spending amongst 17 OECD nations. These results fail to support the first two of my hypotheses, namely that household debt has an inverse relationship with decreasing social spending. Of particular interest, however, are the patterns between countries in terms of their relationship between social spending and debt. Countries tended to cluster in groups according to generosity in social spending and amount of short-term household debt.

This analysis contributes to my effort to contextualize debt within a larger framework of changes in the welfare state. Karger (2005) urges researchers in the field of social welfare to pay careful attention to how borrowing, especially by low-income people, is linked with major social trends. While the data show that advanced democratic welfare states are spending less on working-age people, they are, however, undergoing fundamental changes in the nature of social provision. For example, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) undid the entitlement to social welfare in the US, and imposed time-limits, work requirements, and sanctions through its program, Temporary Aid to Needy Families (TANF). This fundamental shift in the nature of welfare policy would not be evident by social spending

patterns, however. TANF has not been less expensive than its predecessor, AFDC; in fact, 1998 saw a significant jump of 78% in social spending on families in the US.

By 2007, more households with a social assistance recipient owned credit cards and that the amount of credit card debt was greater. An examination of the variance in the level of credit card debt revealed that a substantial number of households acquired up to tens of thousands of dollars of debt by 2007. Like households without welfare recipients, both ownership of credit cards and average debt levels declined post-2008 to much lower levels in 2010. The data follow macro-economic trends in the US, namely a contraction of credit during the short 2001 and longer 2007 recessions. Second, very low income people, such as those who qualify for a means-tested social assistance program like food stamps or TANF, can accumulate very high levels of debt, in some cases representing two to three times their annual income. The trend is that consumer debt has risen across all income strata, but it is of concern for people of very limited income who may not have the capacity to pay it off.

Confirming previous research, payday loan borrowers tend to be people of color, people with less education, younger, and who have lower incomes compared with non-borrowers. In terms of financial behavioral characteristics, payday loan borrowers are less likely to have a credit card and to be able to borrow money from a friend or relative and more likely to have been denied credit in the past five years and paid loans/mortgages more than two months late. The gender difference between borrowers and non-borrowers is significant but small, with more men taking out payday loans than women.

That a quarter of payday loan borrowers report receiving social assistance benefits means that social workers who work with people on TANF, Food Stamps, and SSI need to consider the very real possibility that their clients are engaging in this type of borrowing. On a direct-service

level, financial literacy efforts can be directed to address payday lending. Community and policy-level practitioners can investigate and nurture community-based safer alternatives to payday lending. To address payday lending, communities can increase access to mainstream banks, develop alternative community financial services, and advocate for policy change. Policy efforts to curb payday lending have recently gained significant media attention (New York Times Editorial Board, 2013). While intended to protect consumers, they may have unintended consequences of further financially marginalizing credit- and cash-constrained people, especially welfare recipients, driving them to underground lenders such as loan sharks. Until recently, the United Kingdom offered the "Social Fund" for welfare recipients, by which they could borrow money against their social benefits. This has been abolished, however, with the Welfare Reform Act of 2012 (Department for Work and Pensions, 2012).

Conclusion

Policy and culture have converged since World War II to create a landscape where consumer debt is ubiquitous and the safety net is void of open-ended entitlements but replete in market-based strategies to solve human problems. Has personal debt provided the new fiber to fortify the fraying safety net? Should the goodwill of mainstream banks be relied upon to include financially marginalized people? Some would argue that existing laws must be enforced and the financial situations of indebted people must be improved to see positive economic justice (Drakeford & Sachdev, 2001). And so, if stagnant wages, rising costs, labor market restructuring and deregulation are structural factors thought to contribute to rising credit card debt, how do these factors relate to the transformation of the welfare state and changes in the social safety net? These seem to be the working parts in an otherwise much larger engine, an engine that has changed considerably over the past 40 years.

It has been argued that the use of payday loans must be understood in the context of the larger political and economic system in the US, namely the presence of job insecurity, wage stagnation, the proliferation of low wage jobs, and jobs without benefits (Karger, 2005). The remedies to the problem of predatory lending such as payday loans also must be understood in this context. Despite significant community economic development gains to increase access, alternatives and policy change through advocacy, the practices and effects of payday lending remain a significant social and economic issue of our time. The central tension lies between the ability of the market to meet the demand for financial services for economically marginalized people and the ability of the public sector to regulate these services to ensure that people are protected from fraud and abuse.

Appendix A: International Analysis Sample

Table 7. OECD Countries in Study Sample

Austria
Australia
Belgium
Canada
Czech Republic
Denmark
France
Germany
Greece
Netherlands
New Zealand
Norway
Portugal
Slovak Republic
Spain
United Kingdom
United States

Note: n = 17

Appendix B: International Analysis Social Spending Variable

Table 8. Public Social Spending Categories Inclusion and Exclusion Criteria

Included	Excluded
Incapacity-related	Old Age
Family	Health
Active Labour Market	Survivors
Unemployment	
Housing	
Other	

Appendix C: International Analysis Mixed Effects Model

Figure 5: Regression equation.

$$Y_{tc} = a + bX_{tc} + \alpha_c + \beta_c X_{tc} + \varepsilon_{tc}$$

Y = change in household short-term debt (as % GDP)

X = change in independent variable (Q. 1: public social spending on working-age people as % GDP; Q. 2: public spending on families as % GDP)

t = year

c = country

α = unknown intercept for each country (random effect)

β = unknown coefficient for the interaction between social spending and country (random effect)

ε= error term

Note: Roman letters signify fixed effects; Greek letters signify random effects.

Appendix D: International Analysis Study Sample as Regime Type

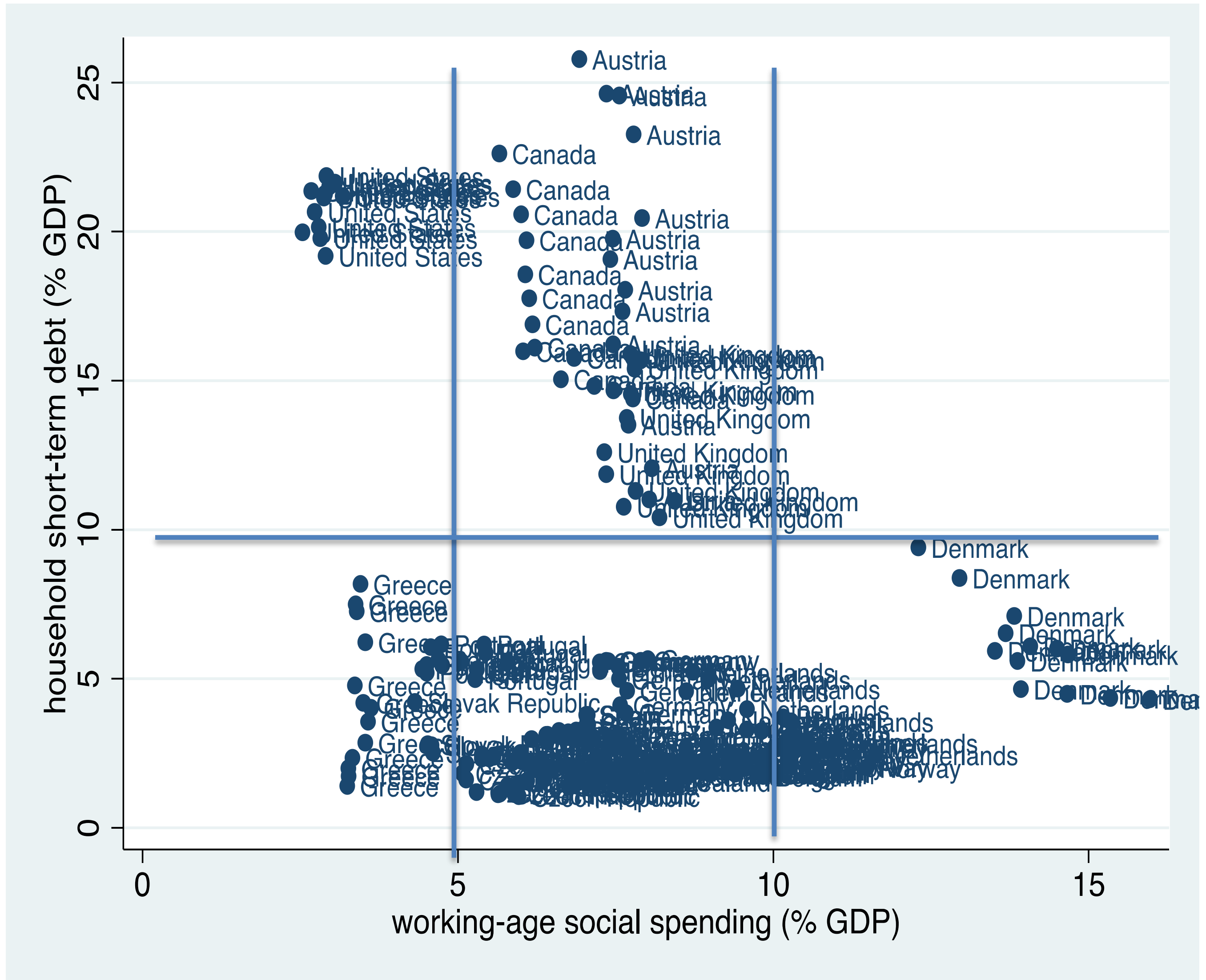
Table 9. Study sample as a subset of Esping-Andersen's (1990) welfare regimes

Liberal (L)	Conservative (C)	Social Democratic (SD)
Australia	Austria	Denmark
Canada	France	Norway
New Zealand	Germany	
United Kingdom	Netherlands	
United States	Belgium	

Note: The sample countries of the Czech Republic, Greece, Portugal, Spain and the Slovak Republic were not included in Esping-Andersen's original 1990 welfare state typology.

Appendix E: International Analysis Debt by Social Spending

Figure 6: Scatterplot of Relationship between Debt and Social Spending in 17 Countries over 12 Years, by Country Name (In % GDP)



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