THE SYSTEMIC NATURE OF PERSONAL DEBT:

A CRITICAL REALIST APPROACH TO ANALYSES AND SOLUTIONS

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Brianna Verhelst, candidate for the degree of Master of Arts in Sociology**,** has presented a thesis titled, ***The Systemic Nature of Personal Debt: A Critical Realist Approach to Analyses and Solutions,*** in an oral examination held on March 16, 2016. The following committee members have found the thesis acceptable in form and content, and that the candidate demonstrated satisfactory knowledge of the subject material.

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Abstract

Keywords: Personal debt, overindebtedness, financial system, financial literacy, critical realism, critical theory, structures, rational choice, financial regulation, social policy.

Despite widespread concern, the causes and effects of the 2008 financial crisis have not been sufficiently addressed. Rising and problematic levels of personal debt remain a significant problem in Canada and across the globe. Efforts to re-regulate the economic system have been minimal, and the mainstream policy narrative tends to focus on financial literacy education strategies for individuals. These approaches stem from the tendency to understand the personal debt problem in highly oversimplified terms, rooted in hegemonic rational choice theory. This perspective focuses on the problem's appearance rather than its essence, individualizing the causes of the problem while ignoring systemic origins almost entirely. Such approaches are therefore inadequate to address overindebtedness because they are based on an inadequate understanding of the problem. An effective solution requires a much more adequate and multifaceted understanding, which this thesis seeks to provide.

This thesis employs a critical realist approach, engaging both intensive and extensive research practices and combining empirical research with abstraction. First, it presents descriptive statistics at the level of the concrete to characterize the breadth and depth of personal debt and characterize it as a social rather than individual problem. Next, it uses intensive methods at the level of the abstract to abduct the personal debt problem from the rational choice context and form an alternative, more adequate theoretical understanding based predominantly on the critical theoretical work of Harvey (2011), McNally (2010), Ritzer (1995, 2014), and Ross (2012, 2013). Subsequently, there is a

return to the level of the concrete to perform a critical discourse analysis of financial literacy education policy documents to establish evidence of rational choice theory operationalized in the policy discourse. Lastly, consistent with the emancipatory goals of critical realism, the thesis considers the implications of the preceding analyses for a range of potential solutions based on the alternative theoretical framework. Because each potential or proposed solution has its own opportunities and challenges by virtue of its structure, it is recommended that each proposed solution be used as a tool within a multifaceted framework with consideration for contextual factors.

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Dedication

For his patience, love, and understanding, and for being far more mature about his mama's hard work than one could ever ask of a four, five, or six-year-old, I dedicate this thesis first and foremost to my Alex. I hope one day you can understand how your special way of supporting me has meant everything in the world. You are my greatest motivator to make you proud and to make the world a better place.

To my parents and siblings: for your endless love and encouragement, even when I was not a terribly pleasant daughter or sister.

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Chapter One: Introduction

The 2008 financial crisis had a profound impact across the globe. It shook national economies, collapsed financial institutions, and disrupted international trade. Moreover, the crisis devastated the personal financial wellbeing of many people, particularly those carrying unsustainable debt loads. In 2015, the lingering causes and effects of the crisis appear reluctant to dissipate. Though the crisis sparked widespread concern and much attention has been paid to the personal debt problem by commentators across the political spectrum, the continued absence of a meaningful solution could mean that the worst is yet to come.

Since the recent crisis, mainstream economic institutions, policy bodies, and various levels of government have been working to propose and implement solutions that will calm volatility in the economic realm and quell unrest in the public one. In efforts to address personal debt and systemic instability, the popular trend is to promote financial literacy education for individuals in the context of recalibrated financial sector regulations. While financial literacy education includes strategies to educate individuals to make informed, responsible financial decisions to protect themselves (and by extension the economy) from adverse economic situations, efforts to re-regulate the financial sector have been minimal but include the implementation of more stringent micro- and macro-prudential regulations over a number of years.

These “solutions” stem from the tendency to understand the personal debt problem in highly oversimplified terms. These prominent mainstream responses are rooted in the hegemonic perspective embodied by rational choice theory, which aligns with the positivist philosophical paradigm and the same free market rhetoric that

underpins neoliberal political thought. This perspective oversimplifies the overindebtedness problem by focusing on the problem's *appearance* rather than its *essence*, individualizing the causes of the problem while ignoring systemic origins almost entirely. Financial literacy education as a policy response stems from and reinforces this practice of scapegoating individuals, and it perpetuates the overindebtedness problem at the systemic level by diverting attention from systemic conditions, preserving hegemonic power relations, and reinforcing the system that causes the problem. At the same time, although the recalibration of financial sector regulations has created a slightly more stringent environment, regulators have been hesitant to implement changes that are too stringent for fear of backlash from interest groups, such as financial institutions and the housing sector. This type of individualizing approach, which drives increasing inequality while preserving status quo power relations, prevails in the social and temporal context of hegemonic neoliberalism.

Solutions rooted in rational choice theory are inadequate to address overindebtedness because they are based on an inadequate understanding of the problem's causes and effects. A more accurate and comprehensive understanding will show that personal debt is a systemic issue rather than an individual problem. Such an understanding will consider the problem's essence rather than appearance and reveal it as complex and contradictory rather than simple and unproblematic. I intend to show that we can achieve a more adequate understanding of the problem by using a critical realist philosophical framework to isolate and illuminate the relevant material and ideal structural forces driving personal debt. Doing so will show that addressing the problem is

much more problematic than the individualistic rational choice narrative reveals, and will set the stage for a diverse and multifaceted response.

I. THE 2008 FINANCIAL CRISIS AND CURRENT CONTEXT

1. The 2008 Global Financial Crisis

According to the common narrative, the 2008 financial crisis originated in U.S. markets and sent shockwaves across the globe. Relaxed regulations allowed credit consumers to take on unsustainable levels of debt, particularly through the proliferation of subprime mortgages and skyrocketing asset prices in the U.S. housing market. Rising housing valuations allowed people to borrow larger sums against the value of their homes in order to finance various needs, like college tuition and medical emergencies, and wants, such as new vehicles and vacations. In addition, rampant "financial innovation" spawned a number of novel debt-based investment products that were traded in largely unsupervised, inadequately understood financial markets, which led to risky investment behaviour and undermined the stability of the entire economic system.

2. The Canadian Context and Current Situation

More stringent financial regulations allowed the Canadian economy to emerge from the crisis relatively unscathed. Although Canada avoided the type of mass mortgage defaults that occurred in the U.S., Canadians did experience job loss and rising unemployment as a result of the crash and subsequent recession. Today there are indications that rising levels of household debt in Canada are becoming a serious social and economic liability, and the Bank of Canada (2012) has identified personal debt as the most significant domestic risk to Canada's economy and financial stability. Canadian residents are among the most indebted in the world. Based on a comparison of aggregate

debt-to-income ratios, Canadians are now more indebted than either the Americans or the British, two countries that pushed financial deregulation the most aggressively pre-crisis and were among the hardest hit when the crisis struck (Bank of Canada 2012:20). Debt levels continue to rise in Canada while they have actually been trending down in the U.S. and the U.K., although this reduction may be due more to mass defaults and loan write-offs than to debt deleveraging (Ross 2013). Canada's aggregate debt-to-asset ratio reached 19.6% in 2009, its highest level in more than 25 years, and the real average household debt level was $110,000 in the same year as compared to $46,000 in 1984 (Hurst 2011:42). Even more recently, the aggregate debt to disposable income ratio peaked at 164.1% in 2013, hitting its highest level since the 1990s. The ratio dropped slightly to 162.6% in 2014, but increases in debt levels for Canadian households continue to outpace growth in disposable income (Statistics Canada 2014a; 2014b).[1]

Although mortgage debt is not accelerating at the same rate in Canada as it did in the U.S., mortgage debt levels are increasing steadily as housing valuations rise in the Canadian housing market. Because servicing larger debt-loads is easier and more affordable when interest rates are low, rising asset valuations in the context of historically low interest rates encourage borrowing against home equity. Since 2000, borrowing against home equity has financed an increasing proportion of consumption in Canada, much like in the U.S. This suggests that increasing indebtedness in Canada is largely attributable to consumer debt rather than mortgages (Hurst 2011:40; Paulin 2012:2). These conditions prompted one commentator to suggest that the trends we are seeing in Canada are no more than a "slow-motion replay of the last housing market train wreck"

[1] Canada's household debt levels include the debt of unincorporated businesses, which may inflate numbers (Grant 2015).

(Roubini 2013). Furthermore, Canadian personal debt levels also pose systemic risks both within and beyond national borders due to the interconnectedness of national economies within the global economic system.

3. Systemic Roots and Contradictions of Personal Overindebtedness

Addressing this problem is not a straightforward task. On one hand, encouraging debt deleveraging (paying down debt using assets) appears to be an important part of a solution. Overindebtedness leaves households vulnerable to adverse economic circumstances, which can lead to decreased rates of consumption and increased rates of insolvency (Paulin 2012:2). However, debt deleveraging also poses the risk of economic slowdown; if individuals use their money to pay down their debts, they are not spending as much on consumption in the market (Paulin 2012:2). Furthermore, the eventual normalization of housing valuations will likely have destabilizing effects through reduced rates of consumption and subsequent economic slowdown since individuals will have less home equity to borrow against (Hurst 2011:40; Paulin 2012:2).

Overindebtedness, debt deleveraging, and the normalization of housing valuations all pose the risk of economic slowdown through decreased consumption, but relying on consumption for economic stability and expansion is not a desirable solution either. For instance, debt-fueled overconsumption accelerates and exacerbates environmental harms through the production and transportation of consumer goods, which drives pollution and resource depletion, especially in the context of globalization. The contradictions in terms of solving the debt problem, and the interrelation between personal debt and other timely social issues, indicates that the problem is systemic in nature. This stands in contrast to the oversimplified conceptualization of the problem in the hegemonic rational choice

perspective. The debt crisis is not simply a debt crisis; it is a systemic crisis of capitalism, and the mainstream solutions put forward to deal with debt are inadequate to address its systemic roots. In the next section, I describe the methodology I will use to achieve a more adequate understanding of the personal debt problem in order to make possible a more effective solution.

II. RESEARCH OBJECTIVE AND METHODOLOGY

1. Defining the Research Object

The object of analysis in this paper will be personal or household debt, that is, debt held by individuals associated with their personal finances. The analysis will not address corporate, sovereign, or other debt, although these are all systemically important and widespread. Furthermore, the analysis will only address credit offered through formal lending institutions with a particular focus on exploitative capitalist lenders; it will not consider informal loans from family or friends. Lastly, while popular focus is often on mortgage debt due to the size of the debts and the role of mortgages in the recent crisis, my analysis will consider all forms of personal debt, including debts that are secured and unsecured, and those that are revolving and non-revolving. This includes mortgages, lines of credit, credit cards, student loans, and payday loans. Although personal debt may also include such liabilities as delinquent bills, outstanding taxes, and social assistance overpayments, these will not be considered here. In addition, the analysis will proceed under the assumption that there is a level of personal debt that is ultimately unsustainable both individually and systemically. It may not be an absolute level, but rather depends on context and contingent circumstances. As we will see, there are a number of structural forces that interact with one another and with the socio-historical context to create the

conditions driving personal debt. These structures will be analyzed and understood within the critical realist philosophical paradigm.

2. Philosophical Assumptions and Methodological Approach

Critical realism is a relatively young paradigm in the philosophy of science literature. It emerged from the paradigm wars between positivism and interpretivism as a response to their limitations, and through critical engagement with the realist approaches of early critical social scientists, such as Marx and Durkheim, and with emancipatory social theorists such as Habermas, Bourdieu, Foucault, Gramsci, and Giddens (Corson 1997:171; Danermark et al. 2002:5; Egbo 2005:272; Williams 2003:50). It now represents a viable alternative philosophical framework, a "Third Way" in the philosophy of science, and holds the potential to improve our understanding of the social world (Bergin, Wells and Owen 2008:169; Wainwright and Forbes 2000:259; Williams 2003:51).

Critical realism combines positivism's ontological realism with epistemological relativism, accounting for both the empirical reality of human experience as well as the underlying causes, mechanisms, tendencies, and structures which are beyond empirical comprehension (Benton and Craib 2001:124-5; Bergin et al. 2008: 170; Williams 2003: 52).[2] That is, it asserts the existence of a real, objective reality, while recognizing that social reality is largely, but not exclusively, interpretative. According to critical realism, reality is *differentiated* in that it consists of three domains: the *empirical* (what we experience), the *actual* (what is experienceable, whether we do experience it or not), and the *real* (the "deep" domain where causal structures and mechanisms reside, and which

[2] Ontology can be understood as the belief about the nature of reality while epistemology encompasses how we may come to know reality.

we cannot know directly). It is this third domain with generative causal mechanisms that allows critical realism to go beyond the limitations of interpretivism and positivism, both of which reduce all three domains (the empirical, the actual, and the real) to one domain: the empirical (Williams 2003:52).

This is known as the *epistemic fallacy*, or the ontological-epistemological collapse. While positivism and interpretivism reduce what there is to know about reality to what we can know about it, critical realism argues that the world exists independently of our knowledge of it, the meanings that we place upon it, and what can be observed empirically (Williams 2003:51-2). Critical realism also recognizes that reality is still largely knowable and discoverable, even though what really exists may differ from its surface representation (Benton and Craib 2001:120). While positivism's focus on the empirical realm atomizes or fragments social reality, disconnecting social actors from their context and emphasizing mathematical relationships rather than social ones (Wainwright and Forbes 2000), critical realism stresses the importance of context in understanding and explaining social phenomena. Critical realism also presents a balanced, problematized view of structure and agency as equally important and existing in a dialectical relationship (Egbo 2005:271; Wilson and McCormack 2006:46).

Critical realism's ontological and epistemological foundations allow us to improve our understanding of the social world in all its complexity, and the methodological approach I adopt here stems from these philosophical assumptions. The ensuing sustained analysis of personal debt is aligned with Danermark et al.'s (2001) "critical multimethodological pluralism." This approach promotes combining intensive (qualitative) and extensive (quantitative) research practices, and combining empirical

research with abstraction to perform a double movement from the level of the concrete, to the abstract, and back to the concrete. Emerging from critical realism's deep ontology, this allows a robust and multifaceted analysis of the issue at hand in order to set the premise for an effective solution.

The goal of critical realist research is to produce practically-adequate knowledge about a problem in order to change it, and from a critical realist perspective, action based on research outcomes is a moral obligation (Corson 1997). *Practical adequacy* refers to the degree to which knowledge "generate[s] expectations about the world and about the results of our actions which are actually realized" (Sayer 1992:82). The better we understand a problem, the better equipped we are to change it. A meaningful solution to overindebtedness can only emerge after the problem is adequately understood, accounting for as many relevant contributing mechanisms as possible, and understanding the context in which it takes place. While this thesis is not intended to be a comprehensive introduction or instructional piece to critical realist methodology, it is an effort to develop solutions to the personal debt problem using a critical realist framework, while demonstrating how it can be applied to a complex empirical social problem.

III. MAP OF REMAINING CHAPTERS

In this introductory chapter, I started with the concrete object in the empirical realm and employed an extensive methodological approach by using existing descriptive statistics to illustrate the breadth and prevalence of the personal debt phenomenon in recent years. The purpose of this introduction was to provide the groundwork for conceptualizing overindebtedness as a social rather than individual problem. However,

rates of indebtedness cannot self-referentially explain themselves. In order to explain why they exist as they do, we must seek the causal mechanisms in the deep domain.

In the second chapter I use intensive methods at the level of the abstract to describe the common theoretical understanding of personal debt as rooted in rational choice theory, then *abduct* the issue of personal debt from this popular context and re-examine it in an alternative theoretical framework presented as a critical realist structural analysis. The framework will synthesize key aspects of the critical perspectives put forth by Harvey (2011), McNally (2011), Ritzer (1995; 2014), and Ross (2012; 2013) to expand the common conception of debt. In this chapter, I describe the multiple interacting structural forces in the deep domain that cause personal debt, and I consider the context in which the problem occurs.

In the third chapter I take a closer look at mainstream responses to the debt crisis, namely financial literacy education in the context of financial sector regulatory recalibration, and provide a macro-level critique in light of the alternative theoretical framework put forward in chapter two. The analysis will show how financial literacy education does not provide a meaningful solution, but rather reinforces the system that causes the problem by supporting systemic stability, and by disseminating through socialization the responsibilizing, victim-blaming discourses that reinforce the legitimacy of the system.

Consistent with the transformative goals of critical realist research, in the final chapter I apply this deeper understanding of personal debt to the empirical domain and outline tangible alternatives to address the problem. Chapter 4 will provide

recommendations for a continuum of policy and non-policy-based alternatives, exploring different levels of transformation, feasibility, and possible consequences.

Chapter Two: Theoretical Understandings of Personal Debt

The goal of this chapter is to explore understandings of personal debt at the level of the abstract. Whether for common-sense purposes in our everyday lives or for the purpose of scientific study, we isolate certain abstract properties of an object from all of its constituent parts in order to develop a theoretical understanding of the object. Critical realists call this method of conceptualization *abstraction via structural analysis*. Any research object has properties that are indispensible to the nature of the object, as well as those that are of minor importance (Danermark et al. 2002:44). In critical realist research, abstraction is the process of isolating certain relevant properties or conditions of a concrete object *in thought* while excluding those that are contextually insignificant for the purpose of scientific study (Danermark et al. 2002:42; Sayer 1992:118). In this case, the object that we wish to understand is the issue of personal debt.

The rise in personal debt levels in recent decades can be understood from various conceptual perspectives, and some frameworks offer more adequate understandings than others. In this chapter, I introduce the hegemonic understanding of personal debt, which is rooted in rational choice theory, and then *abduct*[3] the problem from this commonly understood context to describe it within an alternative theoretical framework. While the former individualizes the debt problem and views it as the result of individual choices or adverse life circumstances, I will show that this understanding is inadequate. Although individuals *do* have the power of choice, the debt problem is caused by the interaction of a number of factors, including historical processes, the structure of the capitalist financial system, and the prevailing culture of consumerism. At the same time, the debt problem is

[3] Abduction is a process of recontextualization or redescription, where we attempt to interpret phenomena within a new conceptual framework with the goal of reaching a new understanding.

supported by the nature and complexity of economic exchange in contemporary capitalism, and reinforced by internalized discourses about morality. This more critical alternative understanding, which I elaborate in the second section of this chapter, provides a much different and far more adequate conceptualization of personal overindebtedness than the understanding presented by the rational choice perspective. The analysis in this chapter at the level of the abstract informs the analysis of financial literacy discourse in chapter three, where I provide evidence of the rational choice theory in discourse at the level of the concrete.

I. DOMINANT THEORETICAL FRAMEWORK

1. Rational Choice Theory

The mainstream conception of personal debt is rooted in the rational choice perspective, which is best understood as a family of theories rather than a single theory. From this perspective, individuals are viewed as rational actors seeking to maximize their utility and self-interest by making optimal, efficient choices with finite resources. This is embodied in the *homo economicus* conception of social actors. Most relevant to the issue of personal debt is Life Cycle Theory, originating with Franco Modigliani and Milton Friedman. Here, individuals are seen as saving and borrowing to smooth out consumption across the life cycle's inevitable income variations, borrowing earlier in life against anticipated future earnings (Lyons and Fisher 2006:328; Naerum 2012:8-9). From this perspective, *over*indebtedness (unsustainable debt) is seen as caused by unexpected and uncontrollable life circumstances, such as illness or job loss, or resulting from poor financial choices by indebted individuals.

In line with this focus on individual circumstances and personal responsibility, debt levels in society are seen as an unproblematic aggregation of the debt levels of individuals, and the financial stability of society is seen as determined by the financial wellbeing of individuals in aggregate. Because individual choices amount to social outcomes in a straightforward way, the most efficient way to manage society and the economy is through individual choices (rather than an inflated public sector or excessively strict regulations). Rational choice theory therefore emphasizes maximum freedom for individuals to make choices without overly restricting those choices, i.e., through excessive government intervention. This perspective also assumes perfectly competitive and efficient free markets and claims to support an anti-regulatory approach to public policy. In practice, however, proponents implement regulations that favour corporations, such as through corporate "wealthfare" (Wilson 2013a:3). Panitch and Gindin (2009:7-10) argue that the state provides a "guarantee" to property, evidenced by government's willingness to infuse the financial system with liquidity when an asset bubble bursts. When the U.S. housing bubble burst in 2007, triggering the collapse of major global banks like Lehman Bros and Bear Stearns, the U.S. and other major economies poured an unprecedented $20 trillion into the global financial system to put a stop to the domino effect of bank failures, a remedy McNally (2010:3) describes as "the financial equivalent of a complete blood transfusion."

The rational choice perspective also assumes the availability of perfect information based on which individuals can make rational choices, but in reality there is a high degree of complexity and opacity in the financial sector. Not only do individuals have to navigate a complex system with profuse fine print and arcane language, there is

also a lack of transparency concerning how the system operates. For example, individual mortgage consumers would have likely been unaware of incentive structures in the subprime mortgage market prior to the 2008 crash which led brokers to pursue "quantity over quality" (Bramley 2012:715), and the impact of these structures on encouraging predatory lending.

2. Critiquing the Hegemonic Understanding of Debt

Rational choice theory has limitations in terms of its ability to explain the origins of personal debt. This perspective is consistent with the ideological tenets of hegemonic neoliberalism as well as the ontological and epistemological foundations of positivism. From a critical realist perspective, a "bad abstraction" is one that "arbitrarily divides the indivisible and/or lumps together the unrelated and the inessential" (Sayer 1992:138). Therefore abstraction through "disaggregation", or fragmenting reality as positivism is prone to, is problematic because it alters the object's causal powers and impacts the adequacy of knowledge produced about that object (Sayer 1992:101). Just as positivism atomizes society during scientific study, rational choice theory decontextualizes and individualizes the personal debt issue. Stemming from the view of the individual as *homo economicus*, this perspective over-emphasizes agency to the point of ignoring structural forces almost entirely. The result is that economic and social problems tend to be psychologized and individualized (Ritzer 2014:61), as evidenced by the belief that particular individuals are responsible for the personal debt phenomenon at both the personal and collective levels.

At the same time as it atomizes society, rational choice theory privileges the economic dimension of individual actors above all others, as if the one dimension were

somehow separable from all other elements that constitute a holistic individual. For instance, this model of human nature has been labeled and criticized as a "separative" model in that it ignores the role of emotional connections in the market and the work associated with those connections. In particular, it undervalues the types of work that are commonly thought to be women's work, such as childrearing and caring work, and how these very important roles contribute to the economy. Thus, the rational choice, separatist model of human nature is an androcentric model (England 2002). This androcentrism is even linguistically embedded in the term *homo economicus*, which translates directly to "economic man". So although rational choice theory is inadequate to explain overindebtedness in general, it is particularly incapable of addressing diversity in causes and experiences associated with indebtedness along the lines of such characteristics as gender, age, and ability.[4]

However, this is not to say that rational choice theory is entirely incorrect. Despite the importance of structure, which rational choice theory neglects, no social issue can be understood as deterministically resulting from structural causes. Despite the assortment of mechanisms driving indebtedness, social agents *do* have the power to make choices to affect their circumstances, as rational choice theory tells us. For example, a person can choose to live a simple, minimalist lifestyle despite pervasive ideologies of consumerism and avoid debt entirely. On the other hand, a person may not have the *option* of avoiding

[4] In an effort to maintain a focus on the structural forces driving personal debt more generally, a detailed analysis of and responses to the unique experiences of the gendered dimension of debt is beyond the scope of this thesis. However, significant research and policy work has been done in relation to women, economic vulnerability, and debt. Themes include women's economic position and the gendered wage gap (Caputo 2012; Cornish 2014; Dwyer, Hodson, and McCloud 2012; Williams 2010); interpersonal relationships and intra-family dynamics, including sexually transmitted debt (Goode 2010; Lyons and Fisher 2006; PRT 2012); and cultural expectations promoted by the beauty industry (Dittmar and Drury 2000; Tietje and Cresap 2005; YWCA 2008).

indebtedness depending on their particular life circumstances. The social context and multiple interacting structural forces make these decisions easier or more difficult, depending on each individual's context. So while the conceptualization of the debt problem put forth by rational choice theory is not entirely inaccurate, it provides only a partial view, an inadequate abstraction, of what drives the problem.

Sayer (1992:86) points out that abstraction "is a powerful tool and hence also a dangerous one if carelessly used." When analyzing the whole, we must "'abstract' from particular conditions, excluding those which have no significant effect in order to focus on those which do" (Sayer 1992:86). Proponents of the hegemonic perspective on personal debt have neglected several significant relationships, abstracting the individual economic actor from the larger social, political, and economic environment. As we will see in the next chapter, the individualistic view put forward by rational choice theory is the theoretical understanding underpinning the financial literacy literature. This impacts the quality of the knowledge produced, and inadequate knowledge can have concrete and serious consequences, such as when manifested in policy. In contrast, thoughtful and careful abstractions allow us to illuminate important aspects of the concrete phenomena that we observe, and set the stage to address the complexity in our response. Although an analysis through the process of abduction provides only one of many possible understandings of an object, showing how something *might* be rather than how something *is* (Danermark et al. 2002:90-1), a more holistic and practically relevant theoretical framework would isolate as many of the important structural forces driving debt as possible and consider the historical context in which the problem occurs.

II. ALTERNATIVE THEORETICAL FRAMEWORK

1. Introducing the Alternative Framework

With this critique in mind, I will now explicate an alternative theoretical framework for understanding personal debt, drawing primarily on the work of four contemporary theorists, namely Harvey (2011), McNally (2011), Ritzer (1995, 2014) and Ross (2012, 2013). Overindebtedness is not simply a "personal trouble of milieu" but rather must be seen as a "public issue of social structure" (Mills 1959:8). Rather than viewing personal debt solely as the result of individual choices, the alternative framework portrays overindebtedness as systemic in origin. By extension, the 2008 financial crisis is not viewed as a crisis resulting from irresponsible individual decisions, but rather a complex phenomenon resulting from the interplay of a number of factors at the systemic (structure) and individual (agency) levels. Thus, my framework has been developed with consideration for the combination of historical processes, structural forces, and cultural factors that constitute the concrete whole, which is what we must abstract from. These multiple, diverse forces interact to produce the same outcome: increasing personal debt. In this sense the phenomenon can be said to be *overdetermined*.

However, we must recognize that the debt problem exists in an open social system, which means it is difficult to ascertain every possible interacting and counteracting mechanism that constitutes an object. Any abstraction, therefore, is bound to be imperfect. This difficulty is augmented in our socio-political context, shaped by globalization, where the social world is rapidly changing and extensively interconnected. Furthermore, the same outcome (overindebtedness) may be caused by different forces for different individuals, and the presence of the same forces may produce indebtedness for

only some individuals due to effects that are contingent. With these caveats, the following theoretical framework reflects my best effort in isolating the most relevant structures influencing personal debt, based on the work of four prolific contemporary social theorists.

For this exercise, the relevant structures are grouped into three sections. The first section will explicate the *historical processes* that have produced a suitable context for the personal debt issue to emerge. These processes are the financialization of capitalism and deregulation; the democratization of credit; neoliberalism; and globalization. Secondly, I will explore those structures that have an *internal relationship* with debt in its current form, that is, those structures that are fundamental constituents of the personal debt problem. This category includes the mutually supportive relationship between the state and the financial sector, the structural needs of the capitalist system, and consumerist ideology. The third group of structures consists of those mechanisms that are *contingent* to the issue of personal debt as it exists today, that is, those which support and reinforce it, but without which the debt problem in its current form could still plausibly exist. I will argue that the nature of economic exchange, the complexity and opacity of financial markets, moral discourses surrounding debt, and the use of indebtedness as social control all support the continued existence of personal debt, but do not necessarily drive it. Through this exercise, I will show that debt must be seen as a foundational rather than incidental phenomenon in advanced capitalist society, and therefore it cannot be reduced to a personal problem that can be solved through financial literacy education.

2. Context: Historical Processes

The troublingly high aggregate levels of personal debt that exist today (and continue to rise) did not come about in a vacuum. Rather, a number of historical processes created a suitable context for the problem to emerge. Overindebtedness cannot be divorced from this context, or it would cease to exist as it does today.

A. Financialization of capitalism and deregulation. One of these processes is the financialization of capitalism, which can be understood as "[t]he multiple processes through which relations among people become ever more embedded in financial transactions, in buying and selling" (McNally 2011:195). Because of its plethora of financial markets, financialized capitalism offers unprecedented opportunity to profit from manipulating money alone rather than providing any tangible product or service. It is therefore characterized by a "growth in the share of wealth and profits going to banks and other financial (as opposed to industrial) institutions" (McNally 2011:195). Lastly, financialized capitalism may also refer to the increasing importance of credit in capitalist society.

The financialization of capitalism is driven by deregulation in financial markets, and in turn, drives further deregulation. In contrast to what is commonly understood, deregulation actually preceded the financialization of capitalism (McNally 2011). Post-WWII, the U.S. was the indisputable dominant economy, and as such, the U.S. dollar was used as the main international currency for world trade. The U.S. dollar was pegged to gold, and all other currencies were tied to the U.S. dollar at fixed rates of exchange. However, in the 1960s, the U.S. was losing ground as the dominant economy. More money was flowing out of the U.S. than in, and U.S. dollars were accumulating in foreign

hands. This led to two significant events that substantially transformed world monetary relations and financial sector regulation: the emergence of the Eurodollar market and the collapse of the Gold Standard.

First, the abundance of U.S. dollars now located outside of U.S. borders prompted the emergence of the Eurodollar market, a space where U.S. dollars could be lent and borrowed that was unregulated by any state. This unregulated offshore market had profound implications for the regulation of currency exchange. Because American multinational corporations (MNCs) could borrow money on better terms in the Eurodollar market than they could within state borders, state financial regulations had to "catch up" and become more favourable to MNCs in order to avoid losing business (McNally 2011:91). This unregulated space for exchange in the international arena set the stage for liberalized, deregulated financial markets within nations.

The second major event that occurred during this period was the collapse of the Gold Standard. As U.S. economic dominance continued to slip and U.S. dollars accumulated in foreign hands, foreign holdings of U.S. dollars eventually exceeded U.S. gold reserves, posing an increased risk of a run on the dollar. Nixon responded to this threat by ending the convertibility of dollars for gold in 1971, the same year the U.S. ran its first postwar trade deficit (McNally 2011:88-92). The collapse of the Gold Standard and de-commodification[5] of money resulted in floating currency exchange rates, and floating monetary valuations meant increased volatility in foreign exchange markets. New insurance products called *derivatives* (such as futures, options, and swaps) were

[5] Money became de-commodified in that the global currency regime was no longer tied to an underlying commodity (i.e., gold) or linked directly to past labour (McNally 2011:92).

developed to hedge risk in this more volatile arena. However, this also created new spaces for speculative exchange based on currency and currency-derived products, and with it the opportunity for enormous profits (McNally 2011).

In addition to speculative exchange based on currency, deregulation allowed all sorts of debt-based financial markets and "exotic" financial instruments to emerge, along with risky lending practices. While banks initially created new financial investment products to provide higher returns for wealthy investors, these products ended up drastically changing traditional models of banking**.** Securitization, the repackaging of pieces of multiple debts into a product that can be bought and sold, figured significantly in the 2008 financial crisis. The high profit margins offered by mortgage-backed securities (MBSs) encouraged lenders to make higher volumes of mortgage loans so that they could, in turn, repackage them and sell more MBSs. They did this by extending mortgages to more high-risk borrowers, leading to the proliferation of imprudent subprime loans. Rather than collecting profits gradually over time from interest on prudent loans (say, a 25-year mortgage), bankers made imprudent loans and sold them as securities. By repackaging the risky loans and selling them to wealthy investors, lenders capitalized their loans right away, moving them off their books while passing on the risk of default. These risky lending practices created new crisis tendencies in the system, which culminated in the 2008 financial meltdown (McNally 2011:67).

Deregulation also provoked systemic destabilization as it allowed increased leveraging in fractional reserve banking. In the period leading up to the 2008 financial crisis, banks in the U.S. and Canada alike could lend up to 30 times their deposits, whereas in previous decades they would typically maintain a leveraging ratio of about

three to one (Harvey 2011:30). This was highly profitable, especially when combined with securitization. First, the lax regulations around leveraging ratios allowed lending institutions to create unprecedented quantities of money out of thin air by lending it into existence, adding the debt to their list of assets rather than subtracting it from their capital. They then sold the loans to investors as securities, thus transforming the "money" they fabricated for borrowers into very real profits for themselves.

B. Democratization of credit. As banking institutions were able to *provide* more credit through increased leveraging in fractional reserve banking, they actively sought more customers to *consume* that credit. The so-called *democratization of credit* is the second historical process in this framework. It can be understood as the process of loosening borrowing requirements to target segments of the population who were previously excluded from access to consumer credit, such as those with low or unsteady incomes or poor credit scores. This transformation has also given rise to the financial inclusion movement, which promotes access to flexible and affordable financial services targeting low-income and marginalized populations. However, because for-profit lenders increasingly target vulnerable groups, the democratization of credit may also be considered "predatory inclusion" for the purpose of financial expropriation (McNally 2011:10).

The democratization of credit process has gradually progressed over the past 30 years, beginning in the 1970s and accelerating through the 1990s. Initially, the expansion of consumer credit occurred to make up for a lack of effective demand following the era

of union busting by Thatcher, Reagan, and Pinochet in the 1980s.[6] These union-busting efforts undermined workers' collective power, leaving them more docile for capital to control. This set the stage for wage slashing by employers; as wages stagnated, the expansion of credit effectively supplemented labour's spending power (Harvey 2011:14-7).

More recently, the democratization of credit has fueled economic expansion in the context of declining profitability of the financial sector (McNally 2011). Credit is a highly profitable commodity in itself through the interest rates, fees, and penalties lenders can charge. It is even more profitable when debts are divided up, repackaged as securities, and sold to investors. Extending credit to riskier borrowers to increase *volumes* of loans thus boosted profits in two ways: first, through the additional interest and fees charged on these higher volumes of loans, and second, through the creation of financial investment products *derived* from these loans. While the mortgage-backed securities (MBS) market is quite widely known due to its role in the 2008 financial crisis, markets also exist for trading in securities derived from other, smaller debts. These include collateralized debt obligations (CDOs) derived from credit card debts, and student loan asset backed securities (SLABS) derived from both publicly guaranteed and (especially) privately provided student loan debt. The profitability of these securities markets encourages banking institutions to extend more of these types of loans as well, which may have serious destabilizing effects on the system down the road, just as the MBSs did

[6] Prior to the 1980s, capitalists lacked an adequate and sufficiently docile supply of labour. The union busting of the '80s overcame that barrier to accumulation, but as capital overcomes one barrier to capital accumulation another is created, in this case a lack of effective demand. See Harvey (2011) for a more detailed discussion of historical barriers to capital accumulation and the ways in which they have been overcome.

recently. In fact, there is evidence that student loans may be the next "big bubble" (Ross 2012; Taylor 2011).

The democratization of credit is essential to conceptualizing debt holistically and illuminating the systemic importance of smaller debts. Mortgages are a credit product still reserved primarily for the middle and upper classes, despite the expansion of markets through the democratization of credit. Other credit products allow less affluent market segments to borrow smaller sums of money for shorter terms at higher cost. Banks now seek out low-income and marginalized credit consumers, whereas a century ago banks did not make personal (consumer) loans even to members of the virtuous middle class.[7] Credit cards have played a pivotal role in making small amounts of credit easily available to the masses and bolstering profits for lenders, and the profitability of low-income credit consumers has also led to the proliferation of predatory "fringe" lending institutions in Canada and elsewhere. Since credit cards and small loans usually do not need to be backed by collateral, financial institutions tend to get away with charging usurious interest rates to offset the risk, which means that poor credit consumers can be highly profitable.

Sub-prime, "fringe" lending options such as payday loans purportedly serve a demographic that is largely neglected by mainstream markets, including low-income, minority, and disenfranchised groups (Ben-Ishai 2008; Kobzar 2012). These types of loans are likely the easiest and fastest legal loans to obtain, particularly with the assortment of online payday loan providers to choose from. With sites like Private Loan

[5] Accompanying the expansion of credit has been an evolution in the common conception of "the borrower". In the past, for instance, the term *deadbeats* used to refer to those borrowers who could not repay their loans, but today, it is the derogatory label used by the credit card industry to refer to those who *do* pay off their balances every month and therefore are not profitable customers (Manning 2000:5).

Shop (privateloanshop.com), Money Mart (moneymart.ca) and Maple Loans (mapleloans.com), among many others, individuals can apply online and receive a loan within minutes without ever leaving their home. After providing basic personal, employment, and banking information, individuals are told they can expect to "Get Their Cash" within minutes. Whereas payday lending is associated with lower socioeconomic status and thus carries stigma that may dissuade some borrowers, the online option removes that barrier.

These types of smaller debts tend to receive much less attention in mainstream discussions of debt because they are relatively much smaller than mortgages. Nonetheless, the effects of these smaller debts on poor borrowers can be severe. The poorest of borrowers end up paying the most for credit in terms of interest rates, fees, and other charges (Manning 2000:19), meaning that the cost of borrowing rises with the financial need of the consumer. People who access payday loans to "get by" from paycheck to paycheck can get trapped into cycles of increasing indebtedness that can be nearly (if not entirely) impossible to escape, especially as borrowers take out new loans to pay off existing ones. This can have severe effects on an individual's financial, social, and mental wellbeing.[8] The proliferation of this industry, which profits by exploiting the poorest of borrowers through high-cost lending, reinforces and exacerbates existing inequalities while funneling wealth from bottom to top.[9]

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[8] One respondent to Buckland's (2012) study on financial challenges experienced by people in inner-city neighbourhoods in Winnipeg, Toronto, and Vancouver reported feeling depressed and suicidal because of the debt spiral that can result from payday lending (Buckland 2012:98).

[9] Currently, the maximum rate structure per $100 loan ranges from $17 in Manitoba[9] to $31 in Nova Scotia[9] (Kobzar 2012:47-50). Saskatchewan lies somewhere in the middle with a $23 rate cap (*Payday Loans Act* 2007). As they occur in increasingly larger numbers and with fee structures like these, it is clear that these small loans can be profitable for capitalist lenders.

Awareness of the harms of the payday loan industry and the inadequacy of available alternatives drives the financial inclusion movement. From this perspective, it is the unavailability of appropriate consumer *choices* that drives low-income borrowers to access high-cost, predatory credit products to meet their needs, and proponents believe that rectifying the exploitative nature of the payday loan industry should not exacerbate financial exclusion for marginalized populations. The financial inclusion movement tends to view credit access as a human right, and promotes the provision of a range of affordable, appropriate financial services as an alternative to payday loans, particularly through microfinance and microcredit.[10-11] Options to access affordable, flexible credit on an emergency basis or to meet basic needs as an alternative to payday lending could address some of the harms that the payday lending industry perpetuates, particularly the debt spirals that can result from exorbitant fee structures and rollover costs. However, the financial inclusion approach is not without limitations. As Ross (2013:59) points out, microcredit programs "only succeeded in stabilizing the ability of debtors to repay their loans" (Ross 2013:59). The financial inclusion approach does not address the fundamental *causes* of low-income debtors' precarious conditions or remove the need that payday loans ostensibly exist to fill; it simply changes the *reaction* to it. Over-

[10] Although these terms are often used interchangeably, they are distinct concepts. On one hand, micro*credit* exclusively entails the distribution and recovery of small (micro) loans, particularly to those who lack access to credit through mainstream institutions due to barriers such as un- or under-employment, lack of credit history, and lack of collateral, and are therefore considered high-risk borrowers. Micro*finance* encompasses a much broader range of services that include savings, insurance, and credit services, including microcredit loans (Elahi and Rahman 2006:476).

[11] Microfinance and microcredit are commonly associated with international development approaches, as the modern microcredit revolution is largely attributed to the work of Muhammad Yunus and the Grameen Bank in the 1970s in Bangladesh. Microcredit programs have seen some success on the international scale (albeit not without criticism) with small loans provided to poor people, especially women, in rural areas so they can start microenterprises or as investments for subsistence. These programs have seen high rates of loan recovery, largely due to such key program characteristics as group lending, social collateral, forced savings, and small initial loan sizes (Elahi and Rahman 2006:477).

emphasizing financial inclusion as a solution serves to naturalize, minimize, and individualize the multiple, complex issues facing low-income debtors, and while microfinance is not as profitable or exploitative as payday lending, financial inclusion still perpetuates existing inequalities.

C. Neoliberalism. Increasing inequality is a key characteristic of neoliberalism, the third historical condition in my alternative theoretical framework. The neoliberal era can be limited temporally from approximately 1985 to the present (McNally 2011:40). Neoliberalism can be understood as a political ideology with philosophical tenets that include the individualism, responsibilization, and free market rhetoric that underpin rational choice theory. Furthermore, neoliberalism has a material dimension, as the hegemony of these concepts shape how we think and have material results when manifested in policy.

Panitch and Gindin (2009:22) emphasize the importance of distinguishing "between understanding neoliberalism as an ideologically driven strategy to free markets from states, as opposed to a materially driven form of social rule that has involved the liberalization of markets through state intervention and management" (Panitch and Gindin 2009:22). While neoliberalism does in part drive deregulation in ways that harm individuals, such as by supporting the proliferation of subprime mortgages, it is also about *re*regulation and state intervention in the interests of capital, as with the Great Bailout of 2008-2009. Furthermore, in the aftermath of the recent crisis, neoliberal ideology provided (and continues to provide) justification for austerity policies as government spending was slashed. In this way, the ideological and material dimensions of neoliberalism reinforce each other. The "necessity" of austerity justifies neoliberal

ideals of small government in practice; at the same time, free market rhetoric underpins deregulation, which promotes the type of systemic crisis that causes the "need" for austerity.

Privatization and welfare state dismantling characterize the neoliberal era, and both are trends that disproportionately harm already disadvantaged or vulnerable groups while bolstering corporate profits. Privatization of public services and cuts to social programs in the neoliberal era have effectively forced people into the market for services that used to be provided socially, transferring costs to individuals. For instance, as post-secondary education is increasingly privatized, the costs of financing education increasingly fall to students, who are increasingly viewed as consumers. As a result, student debt levels are rising and becoming more difficult to pay off, particularly during times of economic contraction and scarce desirable job opportunities. Ross (2013) captures this phenomenon in his concept of a *creditocracy*, defined in part as "a society where access to vital needs is financed through debt." In the context of rising costs of living and stagnating wages, people are forced to rely on the availability of credit to finance services such as healthcare, education, and pensions (McNally 2011). When combined with the democratization of credit or "predatory inclusion" of marginalized populations (McNally 2011:10), credit serves as a *de facto* safety net and contributes to the privatization of the welfare state. By providing "wealthfare" to corporations and leaving individuals to rely on "debtfare", the state governs in a way that favours financial capitalists over the people, especially vulnerable people. As such, the state plays an active role in advancing both the ideological and material aspects of the neoliberal agenda and contributing to rising debt levels for individuals.

D. Globalization. Though these historical processes have largely radiated from the U.S., the context of globalization means that these processes are increasingly exported to countries across the world, exacerbating their destabilizing effects.[12] Globalization can be understood as the increasing interconnection of global locations and the overall compression of time and space. With the drive towards global homogeneity, other nations, such as the UK, have adopted U.S.-style financial regulation and consumption practices (Ritzer 2014). In developing countries, we have also seen the proliferation of microcredit as a poverty-reduction tool very consistent with Western neoliberalism, as it is based on the idea that providing poor individuals access to credit will allow them to achieve economic wellbeing. Furthermore, the international powers (e.g., the Bretton Woods institutions) that govern the globalized economy and construct its financial architecture are "typically élite, expert, highly technocratic and undemocratic" (Harvey 2011:55). This climate of secrecy and unaccountability poses challenges that significantly impede consumers' ability to protect themselves from economic cycles and crises. These institutions form an international version of what Harvey (2011) calls the "state-finance nexus", a concept that I will discuss in the next section.

3. Internal Relationships: Fundamental Conditions That Drive Debt

The second set of structures consists of those with an internal relationship to the personal overindebtedness issue. These mechanisms are *fundamental* in that the nature of the debt problem depends on the existence of these structures. These include the mutually supportive relationship between the state and financial sector; the structural needs of the

[12] However, the "export" of U.S. ideals and practices is not straightforward and unproblematic. Rather, the drive towards global homogeneity interacts with the culture and history of each location it touches, causing unique outcomes (Ritzer 2014:76-7).

capitalist system, particularly profit and growth; and the pervasive ideology of consumerism.

A. Relationship between the financial sector and the state. The relationship between the state and the financial system allows the perpetuation of financial sector regulations that favour financial capital over consumers and facilitate the upward redistribution of wealth. Harvey's (2011:51) concept of the *state-finance nexus* describes this relationship as mutually supportive. The state supports the financial system through regulation (as well as under- or de-regulation), by setting interest rates, by backing the value of money, and by increasing or decreasing the legal leveraging ratio for financial institutions, among others. These influence the operation, profitability, and success of the financial sector. The state also provides "wealthfare" to the financial sector, as with the Great Bailout following the 2008 financial crisis. While the ostensible imprudence of homeowners rendered them undeserving of government assistance following the crisis in the U.S., taxpayer money absolved the banking institutions of responsibility for their reckless lending practices and investment products (Harvey 2011:31).

The financial sector supports the state as well, as the state extracts taxes and borrows money from the financial sector (Harvey 2011:48-51). The state is also able to transfer responsibility onto individuals via the financial sector's services in a couple of ways. For one, maintaining the money supply to run a cash economy is the responsibility of national governments, and the printing, minting, and protection of money is an expensive task (Galoney 1980, as cited in Ritzer 1995:5). In contrast, the production and maintenance of credit cards have no direct cost to the state. The main expense falls on consumers, who pay fees and interest on their balances, and retailers, who generally pay a

fee per credit card transaction. The profits fall to banking institutions. The expansion of the credit card industry and almost ubiquitous credit card acceptance by retailers therefore benefits the state by easing the cost of maintaining the money supply (Ritzer 1995). Second, the availability of credit from the financial sector also indirectly eases the amount of money the state must spend on publicly funded programs, supporting neoliberal policy agendas of privatization and welfare state dismantling. As services such as healthcare and education are increasingly privatized, the availability of credit provides a way for people to acquire those services if they do not have savings to draw on. Furthermore, people of nearly all income levels can easily access credit, thanks to the proliferation of fringe banking. Some fringe lending institutions even provide payday loans to people whose only income source is state assistance, which means that even the poorest individuals can access credit in order to meet basic needs, if necessary. In this way, debt acts as a *de facto* safety net, and in turn positions creditors to profit from inequality and precarity.

Examining this relationship illuminates a contradiction in the role of the state. Governments (in many countries) are ultimately elected by and exist to serve the people. However, they also provide the policy tools to facilitate the continued coercive extraction and upwards redistribution of wealth by finance capital, via predatory consumer credit, from the very people they ostensibly exist to represent and protect. This is particularly disconcerting in the case of the "predatory inclusion" of low-income borrowers who pay higher, often usurious rates and fees for the credit they access compared to more affluent segments of the population. This is why debt has been referred to as a "weapon of dispossession" in the context of financialized capitalism (McNally 2011:126). The state

thus acts on behalf of the ruling class by allowing these predatory practices to continue, favouring profit and expansion over providing alternatives to better serve the people.

B. Structural needs of the capitalist system: Profit and growth. The capitalist system has fundamental structural components that it cannot exist without. Two of these are profit and growth. Because the perpetuation and growth of the capitalist system relies on the proliferation of debt resulting from profit-based lending, and because financialized capitalism both requires and enables exploitative for-profit lending, I will show that the relationship between financialized capitalism and personal debt is internal and not contingent.

Capitalism is an economic system fundamentally based on production for profit, which means that the perpetuation of the system as a whole requires the accumulation and reinvestment of surplus value. Capitalist firms must accumulate profit in order to survive, which they do by exploiting labour and other resources to create surplus value to reinvest. As a capitalist industry, the ability of financial institutions to lend money for a profit relies on the capitalist system, which provides both the financial infrastructure and ideological justifications that normalize and legitimize profit-based lending. Because profit-seeking behaviour is one of the intrinsic contradictions that contribute to the crisis-prone nature of the capitalist system, capitalists relinquish the potential for long-term sustainability in their short-term quest for profit, thereby undermining the system that enables their power and prosperity. Profit-seeking behaviour by financial capitalists was an integral part of the recent crisis. McNally (2011) points out that the 2008 financial crisis was actually a financial sector profitability crisis rather than a debt crisis. That is, without the need for financial institutions to profit, the crisis could not have occurred.

Consider these events leading up to the crisis. When the Salomon Brothers first developed and sold mortgage-backed securities (MBSs), a debt-based investment product, they were incredibly profitable. However, soon other banks copied the Salomon Brothers' model and MBSs became more widely available, so the profitability of these products decreased. To make up for declining profits, bankers then had to both sell higher *volumes* of these products, and to *innovate* in order to produce new, increasingly "exotic" financial products (McNally 2011). This innovation essentially turned financial markets into a high stakes casino (Harvey 2011), particularly as it became legal for investors to purchase credit default swaps (CDSs) on assets, such as MBSs, that they did not own. CDSs can be best understood as a sort of insurance policy. If you have invested in a security, you can purchase a CDS for a sizable fee (e.g., $20,000 per year) to protect yourself in the event that the debtor defaults. By purchasing a CDS on a security that you *do not* own, you are effectively betting that the debtor *will* default, which is the only way for you, the CDS purchaser, to collect any money without actually owning the security yourself (McNally 2011:103-4). Because securities and credit default swaps are both financial instruments derived from debt, the profitability of these products depends on the continued expansion of debt (via the democratization of credit) so that more such financial instruments can be created, based on new debts. Thus, the profitability of debt-based financial products is inextricably related to the democratization of credit, and as we will see, to the growth of the credit industry and the capitalist system in general.

The capitalist economic system must grow or die (Harvey 2011; Ritzer 1995; Ross 2013), and personal debt and the credit system are integral to its growth. As the system grows, all capitalist industries within that system must also continually grow to

maintain or increase their market share and remain competitive. The increasing availability of credit offered by the financial industry increases individuals' buying power, enabling them to consume more of the products and services offered by other capitalist industries, perpetuating the growth of these industries in addition to the system's growth overall (Harvey 2011; Ritzer 1995). Like other capitalist fractions, the credit industry must expand its market or die, which it accomplishes through the proliferation of cheap and easy credit.

However, the financial industry differs from other capitalist industries due to the nature of its product, which is credit. In order to turn a profit, financial capitalists rely on the ability of debtors to repay the principle plus interest in the future based on increased future earnings. This is only plausible in the context of continued economic growth (Ross 2013). At the same time, capitalism relies on the expansion of credit in order to grow, as the system would not be able to expand without the availability of credit to compensate for stagnating wages by supplementing consumer buying power. It is possible that the growth and profitability of other capitalist industries may be facilitated by the expansion of credit in the absence of system-wide growth. However, the growth and profitability of the credit industry is only plausible in the context of actual economic growth. The growth of the credit industry is therefore internally and symmetrically related[13] to the growth of the capitalist economy, particularly in the era of neoliberal austerity and stagnating

[13] According to critical realism, relationships between objects can be described as either internal and necessary or external and contingent (Danermark et al. 2002:46). An external and contingent relation is one where "either object can exist without the other" and neither depends on the other for its nature, while an internal and necessary relation is one where "what the object *is* is dependent on its relation to the other", that is, they necessarily presuppose one another (Sayer 1992:89). Furthermore, internal relations may be either symmetric or asymmetric, depending on whether both objects cannot exist without the other, or one object can exist without the other while the other cannot (Sayer 1992:90; Danermark et al. 2002:47).

wages. In this way, the credit industry must be seen as foundationally sustaining the capitalist system.

The relationship between debt and growth must be problematized even more. In the short-term, economic growth is not good for the profitability of the credit card industry. For instance, credit card companies loathe times of economic expansion because the number of "convenience users"[14] tends to rise, which impacts their ability to derive profits from credit card use (Manning 2000:13). However, neoliberal policy strategies in the larger economic environment contribute to increasing inequality, more dependency on credit, and more "revolvers"[15] even in times of economic expansion. During the boom of the 1920s, as with the period of neoliberal expansion in the 1990s, more than 90% of Americans saw their incomes fall, which means that more and more purchases of cars, appliances, and homes were debt-financed (McNally 2011:64).

C. Consumerist ideology. We have seen how the capitalist system depends on the existence and expansion of credit, but simply making credit affordable and readily available does not in itself ensure that people will access credit and spend on it. This is the function of the modern advertising industry, which disseminates cultural-ideological motivators to drive consumption by manipulating demand. Consumer culture was intentionally created to stimulate consumption in the context of over-production in early capitalism. The advertising industry disseminated messages to break ideologies of thrift and create new philosophies of life where fulfillment was to be achieved through

[14] Convenience users of credit cards are those who pay off their balances every month and often use credit cards for the incentives and rewards, and who are thus not profitable to credit card providers. Because they are not profitable, they are derogatively referred to as "deadbeats" (Manning 2000:5).
[15] Revolvers are those credit card users who carry a balance from month to month and are therefore profitable to credit card providers in terms of interest and fees (Manning 2000:13).

consumption. This encouraged people to spend their wages on the very products they were working in factories to mass-produce (Ewen 1976). More recently, in the context of a thriving consumer culture but stagnating real wages, the advertising industry encourages people to spend on credit by promoting the products to buy as well as the tools with which to buy them.[16]

For instance, marketing campaigns and incentive programs encourage people to *obtain* new cards, such as by advertising zero percent interest on balance transfers to new cards for a limited time, or by offering secured credit cards to help those with poor credit scores rebuild their credit. They encourage people to *use* their credit cards more, for example, to earn Air Miles. They also encourage people to *spend* more freely on existing credit cards to achieve some type of cultural consumption ideal, as exemplified in MasterCard's "Priceless" campaign (Manning 2000; Ritzer 1995). Incentives programs, like Air Miles, often have additional fees attached, and spending more on credit cards leads to revolving balances and resulting interest charges, both of which contribute to increased profitability for credit card companies. To the extent that consumer culture drives people to spend *more* using credit cards than they would without them, this contributes to increased profits for other capitalist industries as well, even if a portion of those profits are seized by the credit card industry through transaction fees.

4. Contingent Relationships: Structures That Maintain Conditions

The third set of structures in my alternative theoretical framework summarizes those conditions that are contingent to the personal debt issue. These structures are more

[16] Ritzer (2014:67-9) argues that the goal of the advertising industry is to drive *hyperconsumption,* understood as consuming more than one "needs", intends, and can afford. Hyperconsumption results in *hyperdebt,* defined as taking on more debt than one "needs", intends, and can afford (Ritzer 2014:68-9).

peripheral to sustaining personal debt, rather than fundamental, but their significance should not be overlooked. They are important to understanding the personal debt problem fully, as they contribute to the context that supports the existence and proliferation of personal debt, and provide challenges to addressing the problem.

A. Nature of economic exchange. One condition that contributes to overspending by individuals is the nature of economic exchange in capitalist markets, which is profoundly impersonal and which largely requires the use of debt for both small and large purchases. That is, the *nature* of the system of economic exchange, in addition to its capitalist *organization*, makes it difficult for people to exert agency and choose to avoid using credit completely. Although this is not a necessary driver of personal debt, it is a contextual condition that supports continued upwards trends in personal debt levels. Economic exchange in contemporary capitalism is largely mediated by impersonal *tools of consumption* (Ritzer 2014). Drawing on Simmel's work on the money economy, Ritzer (1995:20) contrasts the *impersonal* nature of economic exchange in contemporary capitalism, mediated by money and credit, to the more *personal* economic exchanges of a barter economy, where exchange occurred through personal interactions.[17] Credit cards as a medium of exchange encourage excessive consumer spending by feeding into the desire for immediate gratification. They facilitate rapid, impulsive spending within *means of consumption*, like malls, grocery stores, and casinos, which are themselves designed to encourage overconsumption (Ritzer 2014:65).

[17] These more personal forms of exchange still exist in a smaller, more peripheral way today, such as through farmer's markets and community supported agriculture. Both facilitate direct connections between producers and consumers. With the latter, consumers even share in the risk associated with production.

Ritzer (1995) points out that credit cards are also necessary for full participation in the economy. When we consider how difficult it is to purchase many goods and services without a credit card (e.g., to book a hotel or purchase a smartphone app), we can see that choosing *not* to use a credit card can make certain aspects of consumer life more difficult. Given the increasing centrality of the credit card in day-to-day economic exchange and the rapidity of spending it facilitates, credit card use on small-ticket purchases can easily drive people into debt. When making larger purchases like homes and (to a lesser extent) vehicles, avoiding debt is a virtual impossibility for most people. Financing the purchase of a home or post-secondary education (two of the most "morally upstanding" reasons for taking on debt) often leaves people indebted for years, if not decades. And to the extent that people are able to *access* larger amounts of credit for large purchases, i.e., through the democratization of credit and low interest rates allowed by deregulation, they are more likely to *spend* more on these larger purchases. In this way, the nature of economic exchange in the capitalist system *promotes* indebtedness.

B. Opacity, complexity, and the need for experts. At the same time, the complex and opaque nature of the financial system makes it difficult for individuals to *avoid* indebtedness by making wise, informed financial decisions. It also hinders widespread recognition of the problems associated with increasing debt. Like modern economics in general, the financial system is exceedingly complex. This is evident in the complexity of loan agreements and other financial contracts, the common lack of full disclosure around fees and penalties, and the lack of transparency in how the financial industry operates behind the scenes. McNally (2011) asserts that discipline of economics and the financial system are made deliberately obscure by the ruling class. Because economics deals with

how power and money are distributed (unequally) in society, the ruling class actively cultivates illiteracy among the masses. In doing so, they also create the need for experts, those "High Priests of Modern Economics" who "generate confusion and disinformation" about the system (McNally 2011:11).

However, this confusion and disinformation often impedes the experts' own understanding of the system as well, hence why many did not see the 2008 financial meltdown coming. Consider the risk evaluation practices by the credit rating agency Standard and Poor's (S&P's), a division of McGraw Hill Financial, leading up to the crash. Like other credit rating agencies, S&P's gave toxic collateralized debt obligations (CDOs) AAA credit ratings, the highest quality rating, even though these CDOs were composed of fragments of risky subprime mortgages. Subprime mortgages inherently carry a higher risk of default, so the CDOs should have received a much lower credit rating. While S&P's has been pursued by the U.S. Justice Department for ratings fraud for their role in precipitating the crisis, others assert that they may have been "more morons than crooks" (Lewis 2010:129, as cited in McNally 2011:107). For example, the complex, computerized risk assessment models that S&P's used were not designed to accept a negative number. That is, "they literally could not acknowledge the possibility that housing prices might ever decline" (McNally 2011:111). This type of complex but defective computerized modeling amplified losses as the crisis struck, as they continued to urge firms to buy toxic debt-derived products even as the market was falling (McNally 2011:111).

Consistent with rational choice theory, mainstream economics is a very positivist science, based on rigid quantitative modeling and econometrics. It considers only part of

reality, that which we can count, and thus atomizes and decontextualizes a very complex system through its formulaic application of predictive quantitative methods. Financial institutions invested billions in quantitative analysis, but their dependence on this approach ended up failing them and exacerbating the meltdown. In the aftermath of the crisis, rather than embracing this opportunity to re-evaluate their understandings of how the capitalist system works, the ruling class is "devising a rhetoric to blame its victims" (McNally 2011:21). Rather than attempting to move towards a more balanced and sustainable system, the most notable reaction has been more of the same. This is evidenced by the common focus on educating individuals to effectively act within the existing system, in combination with tweaking financial regulations without changing anything essential or fundamental about the system.

C. Indebtedness and social control. Perhaps one of the reasons the ruling class is not working to change anything fundamental about the system (and thus, transform the debt problem) is because debt functions as an effective means of social control. Despite the extent to which both individuals and the system rely on personal debt, despite the challenges individuals face in making wise financial decisions, and despite the pervasiveness of personal debt, indebtedness is often seen as a moral flaw *vis-à-vis* the moral virtue of thrift. This is used to silence and control individuals in a number of ways.

Indebtedness is intimately bound up with discourses of morality, which are contingent but significant to the perpetuation of personal debt. Morality discourses support and reinforce personal debt by legitimizing debt relations while stigmatizing those who default. This helps to ensure that people want to repay their debts while dissuading them from challenging the status quo, or even discussing their debt problems

openly, particularly for those holding less virtuous types of debt. For instance, credit card and other consumer debts are seen as irresponsible and impulsive, as opposed to student loans or mortgage debts, which are seen as a wise investment in one's future (Ross 2012, 2013). Thus, people will be more likely to openly admit to high levels of mortgage or student debt than to high levels of consumer debt.

Furthermore, indebtedness is tied up with moral discourses of promise-keeping, which Ross (2013) terms *payback morality*. Payback morality is a psychological state that is internalized through socialization. It keeps people complacent, preventing them from (a) realizing the exploitative nature of the current system, which is characterized by a power imbalance favouring creditors/financial capitalists over the people, and (b) engaging in meaningful civic action. But payback morality is not purely ideological; it is also enforced through mechanisms such as the courts, police, and credit scores (Ross 2013:22).

The condition of indebtedness itself also functions as a means of social control (Ross 2012, 2013). Because creditors have claims on debtors' future earnings, debt is compared to indentured servitude as it can tie people to employment situations that are not ideal and compel them to accept oppressive or exploitative political conditions. Furthermore, debt servitude in the form of long-term mortgages has long been synonymous with the American Dream, and mortgages were promoted as an anti-socialist, anti-communist policy in the 1920s United States (Ross 2012:30).[18] The threat of a ruined credit score is a strong motivator that discourages people from defaulting,

[18] American real-estate developer William Levitt, who had a massive influence on the development of modern American suburbia, once said: "no man can be a homeowner and a Communist" (as cited in Ross 2012:30).

especially since employers in the U.S. commonly consider applicants' credit scores in hiring decisions. Violating repayment terms of student loans can lead to enormous penalties, which encourages recent graduates to accept and remain in undesirable employment conditions. Furthermore, as post-secondary education is increasingly funded by debt rather than the state in the neoliberal era, it increasingly "threatens the democratic ideal of a freethinking citizenry" (Ross 2012:29). As access to education is limited, it also limits citizens' understanding of society and their place within it. For those who are able to access education, it may also prompt them to make choices that are more likely to lead to favourable employment conditions post-education. That is, students are likely to choose education programs that are more mainstream, in line with hegemonic ideals, and are thus less risky and more employable. These types of conditions prevent risk-taking behaviour, particularly behaviour that could subvert the hegemonic order.

At the same time, the availability of credit may provide a means to subvert social control, at least temporarily. The availability of credit can actually undermine labour control by offering a means of economic survival during times of unemployment, and a personal safety net to rely on until a desirable position presents itself. This can give prospective employees added bargaining power so that they are not compelled to accept the first job that comes their way (Manning 2000:4). So although debt can create crises (personal and systemic) in the long-term, it can also "help get us through crises" (Nocera 2008 B8, as cited in Ritzer 2014:66) in the short-term.

5. Overdetermination

Critical realists refer to a situation where "the operation of two or more mechanisms each brings about the same effect simultaneously" as being *overdetermined*

(Sayer 1992:108). One force, such as overconsumption fostered by the culture of consumerism, may be sufficient to cause overindebtedness for some individuals. For others, their indebtedness may be overdetermined, as consumerism, easy access to credit, rising costs of living, welfare state rollback, and adverse life circumstances (e.g., job loss) may all work in concert to cause overindebtedness, while payback morality dissuades them from default. However, still others may exert agency against these structural forces and live a minimalist lifestyle of voluntary simplicity, enabling them to avoid indebtedness entirely. Although individuals do have the power of individual choice, the aforementioned structural forces facing individuals make it difficult to avoid indebtedness through exercising that power.

III. CHAPTER CONCLUSION

In summary, historical processes of social change, characterized by financialization, deregulation, democratization of credit, neoliberalism, and globalization, have created a ripe context for the current debt problem to emerge. The debt problem is driven by the structural needs of the capitalist financial system, capitalist power relations, and the cultural phenomenon of consumerism. At the same time, the proliferation of the debt problem is supported by the nature and complexity of economic exchange in contemporary capitalism, and by internalized discourses about morality and fear of consequences that dissuade people from default. Based on this alternative understanding of how overindebtedness occurs, the problem is not an easy one to solve. Unfortunately but not surprisingly, the policy responses put forward by influential mainstream institutions at the national and international levels have not treated personal debt as the multifaceted problem that it is. The prominent financial literacy education trend betrays a

unidimensional conceptualization of the problem, aligned with the rational choice understanding of debt. Abstracting the individual economic actor from the larger social, political, and economic environment thus impacts the quality, or practical relevance, of the knowledge produced.

In the next chapter, I will show how this perspective cannot be successful. Chapter three will move back to the empirical domain, at the level of the concrete, to examine prominent financial literacy education policy documents. Based on my alternative theoretical framework, I will first critique financial literacy education as a solution *in general* in terms of its potential effectiveness at solving the personal debt problem. Then, I will analyze the *content* of the policy reports from the Organization for Economic Cooperation and Development (OECD) and Canadian Task Force on Financial Literacy, showing how they contribute to a policy discourse that perpetuates the personal debt problem by reinforcing the system that causes it.

Chapter Three: Analysis and Critique

Financial literacy education has been a prominent policy response to the 2008 financial crisis and ongoing personal debt problem. This chapter moves back to the level of the concrete to examine selected policy reports on financial literacy education strategies as well as textbooks used for delivering financial literacy education to determine whether the anticipated connection between rational choice and financial literacy exists. I will analyze these materials as empirical manifestations of the rational choice perspective, and will argue that financial literacy education in the context of an under-regulated financial sector is an inadequate response to the debt crisis because it is based on an inadequate understanding of the problem. That is, it is not possible to fix a systemic problem with an individual level solution. Rather, financial literacy education reinforces the system that causes the problem in two important ways. First, it naturalizes the hegemonic rational choice conceptual understanding of society and individuals, which contributes to legitimizing the current economic order. Second, it encourages individual economic behaviour that will stabilize the economy at the systemic level. However, because financial literacy education is based on rational choice theory, an inadequate understanding of the debt problem, it is inherently incapable of addressing the multiple interacting structural forces that drive overindebtedness at the personal level, particularly as the financial sector is recalibrated but remains under-regulated.

This chapter is divided into three main parts. The first section will introduce the financial literacy trend at the national and international levels, as well as the regulatory context in which it occurs, including a description of the institutions and perspectives involved in shaping the trend. The second section will entail a critical discourse analysis

(CDA) of the financial literacy education policy reports and key educational materials. Here, I will analyze the *content* of the texts and then consider the potential effects of the *dissemination* of the information. Finally, in the third section of this chapter, I will analyze the potential effectiveness of financial literacy as a solution to the personal debt problem with reference to my alternative theoretical framework. This will set the stage for chapter four, which will consider more holistic and transformative solutions.

I. THE MAINSTREAM RESPONSES

An examination of mainstream policy responses to the personal debt issue reveals a vast oversimplification of a very complex problem and shortsightedness on behalf of those attempting to address it. This is demonstrated through a troublesome tendency to focus on indebted individuals as the main perpetrators of their own personal debt crises as well as the shared, aggregate debt crisis, and to promote the piecemeal re-regulation of the financial sector on the systemic side. In this section, I will describe recent changes to the financial sector's regulatory environment to provide context to the main discussion in this chapter, which is financial literacy education. Then, I will describe the financial literacy trend in general, followed by a discussion of the institutions and actors involved in shaping the approach and the content.

1. Regulatory Context: Incremental Financial Sector Re-Regulation

Financial literacy proponents at the international and national levels present financial literacy education as complementary to other areas of reform, including regulatory reform, financial consumer protection, and improving financial access via financial inclusion (OECD 2009; OECD 2013; Task Force 2010). They take care to assure readers that financial literacy is no panacea and is not intended to take the place of

government intervention. However, when considered in the context of the second chapter's alternative theoretical framework, we can see that the government regulations currently in place are not sufficient to protect consumers. While national and international regulatory bodies have made an effort towards tightening up financial regulations since the 2008 financial crisis, empirical evidence demonstrates that only minimal re-regulation of the financial sector has been accomplished or planned. The reform agenda includes stronger micro- and macro-prudential regulations,[19] enhanced supervision of financial institutions, and regulations to address "systemically important" (i.e., too big to fail) financial institutions (Giustiniani and Thornton 2011:323). One of the key reforms is the Third Basel Accord (Basel III), which the Basel Committee on Banking Supervision prescribed to be implemented by 2018. Since 2009, all of the G20 of countries are signatories to the Basel III, as well as other major banking centres (e.g., Hong Kong, Singapore). The Basel III requires banking institutions to maintain more capital to back their loans in order to absorb shock, with different levels of capital required for loans with different levels of risk (Giustiniani and Thornton 2011:324).

As Giustiniani and Thornton (2011) point out, while these stronger regulations are called for, they do not represent a wholesale reform of the system. Furthermore, they may not happen quickly enough to quell lingering instability, address developing bubbles (such as Canada's housing bubble), and solve the regulatory inconsistencies between jurisdictions that encourage speculative exchange. As such, these reforms have been criticized for being too weak to achieve economic stability and prevent future crises (and subsequent bailout costs for taxpayers). At the same time, others criticize these reforms

[19] Micro-prudential refers to regulations targeting financial institutions (e.g., enhanced supervision), while macro-prudential regulations target systemic conditions (e.g., leveraging ratios).

for impeding banks' profits and hindering the accessibility and affordability of credit for consumers (Giustiniani and Thornton 2011:332-3).

On the national level, since 2008 the Canadian federal government tightened up lending rules for mortgages insured through the Canadian Mortgage and Housing Corporation (CMHC) and other private sector insurers. These include a reduced maximum amortization period (from 40 to 25 years), a mandatory minimum five percent down payment (whereas none was previously required), a reduced maximum on the value individuals can borrow against their home equity (from 95 to 80 percent, and then reduced again to 65 percent in 2012), and limits to the maximum gross debt service ratio (39 percent) and total debt service ratio (44 percent) (CBA 2015). As with the reforms on the international level, these are inadequate to address persistent and troubling upward trends in household debt and rising valuations in the housing market, especially as policymakers are hesitant to impose regulations that are *too* strong for fear of backlash from interest groups (Roubini 2013). This middle ground approach to regulatory reform thus tweaks but essentially preserves the regulatory status quo. As described in the first chapter, the status quo in Canada supports household debt levels that continue to climb.

The focus of this regulatory reform is to achieve systemic stability and protect financial institutions, but these changes are not sufficient to protect individuals from accumulating crippling debt loads. Rather, individuals are expected to protect themselves through responsible financial decisions and sufficient savings, and acquiring adequate financial knowledge will allow them to do that.

2. Introducing Financial Literacy Education: The Approach

Promoting financial literacy education is, perhaps, the most prominent mainstream response to the personal debt problem. Financial literacy is a component of the consumer education movements that have been developing since the 1960s. Consumer education has been defined as the "process of gaining skills, knowledge and understanding needed by individuals in a consumer society such that they can make full use of consumer opportunities presented in today's complex marketplace" (Wells and Atherton 1998, as cited in OECD 2009:8). These movements encompass such topics as household management, consumer rights, fraudulent and unfair commercial practices, and the social and environmental consequences of consumer choices (OECD 2009:7-8). Financial literacy education is the most recent development in this stream, where financial literacy can be understood as "having the knowledge, skills and confidence to make responsible financial decisions" (Task Force 2010:10).

Recent reports published by influential institutions on the national and international levels promote financial literacy education as an important (if not *the most* important) solution to deal with personal overindebtedness, as well as instability in the global financial system in general. While policy discussions promoting financial literacy education were certainly present before the 2008 financial crisis (see, e.g., OECD 2005), they have expanded significantly since then. The idea behind this approach is that educating individuals to become financially literate economic actors will enable them to make "responsible" financial decisions and protect themselves from crises. By extension, financial stability at the individual level will translate into stability in the financial system

as a whole. The way the debt problem and the solution are framed in the financial literacy literature is very compatible with the rational choice perspective.

3. Introducing the Policy Reports: Institutional Actors and Context

The rational choice conceptualization of the economy and of individuals informs the financial literacy education literature, and is disseminated through it. Examining the process by which financial literacy education as discourse is developed and disseminated, as well as the institutional actors involved in shaping the discourse, illuminates the mechanisms by which this particular perspective is homogenized, naturalized, and perpetuated, while other perspectives are excluded. In this section, I will consider the roles of the Organization for Economic Cooperation and Development (OECD) and the Canadian Task Force on Financial Literacy (Task Force) in producing and promoting the financial literacy approach.

A. The Organization for Economic Cooperation and Development. At the international level, the OECD is the leader in promoting financial literacy education.[20] The OECD is an international institution that influences policy development and promotes standardization among member nations. It provides a forum for governments of member nations to share information and strategies, and performs research and recommends policy approaches to address shared concerns.

According to Theodore and Peck (2011), the OECD does not *make* policies but rather *mediates* policy development by providing an arena for discussion and facilitating negotiations between member countries. In practice, the OECD is involved in the

[20] Other powerful supranational economic institutions have expressed concerns regarding financial literacy but have done so in a more peripheral way; the World Bank and the International Monetary Fund are more concerned, for example, with improving access to financial services and having financial literacy education provided as a component of those services.

construction and dissemination of policy knowledge. Its network enables the rapid dissemination of ideas, and it facilitates policy diffusion both vertically and horizontally.[21] Because the OECD has no teeth and cannot enforce its policy prescriptions, it relies on "soft power" and persuasion to shape policy reform (Theodore and Peck 2011:22). A great source of the OECD's power comes from its ability to convey authority and legitimacy to the policy options it promotes through claims to expertise and objective social science, labeling preferred options as global "best practices" (Theodore and Peck 2011).

The OECD uses its "soft power" in both active and passive ways. It actively constructs policy consensuses and defines the limits of politically feasible options, based on policy directions that are palatable within neoliberal constraints (Theodore and Peck 2011:22). The OECD also uses passive tactics in building consensus, including strategic prioritization and the exclusion of particular issues and perspectives. Thus, the OECD is engaged in "paradigm building and maintenance" (Theodore and Peck 2011:24), shaping how policy problems are understood by legitimating some perspectives and silencing others. Furthermore, although the OECD operates at the supranational level, is not a *global* institution but a selectively *transnational* one. Headquartered in Paris, its membership includes wealthy and emerging countries of Europe, North America, South America, and Asia. Many member nations have neoliberal administrations, while others may be described as conservative or centrist (Theodore and Peck 2011:21-3). From those countries, the representatives who participate in policy discussions and research at the

[21] The OECD facilitates vertical policy diffusion between the OECD and decisionmakers at the national and sometimes local levels, and it facilitates horizontal diffusion by providing a platform for the exchange of policy ideas among decisionmakers and policy actors from different national governments (Theodore and Peck 2011).

OECD are the policy elite. Therefore, any supposed "global" consensus reached in the OECD forum is actually a selective, perceived, and manufactured consensus.

B. Canadian Task Force on Financial Literacy. After conducting research, collecting input from member nations, and building consensus, the OECD's recommendations feed back into national level strategies. Canada's financial literacy strategy has been influenced by policy discussions at the international level,[22] and an exclusive group has been involved in shaping the policy discourse in Canada as well. The Canadian Task Force on Financial Literacy was appointed in 2009 following the global financial crisis with a mandate from the federal government to make policy recommendations to improve financial literacy in Canada (Task Force 2010). Examining the membership of the Canadian Task Force on Financial Literacy can provide further insight as to whose perspectives are represented at the national level and whose are excluded.

While all members of the Canadian public, including ordinary people, were invited to participate in shaping Canada's financial literacy education strategy through the initial public consultation process, the Task Force committee itself was exclusive. Though the committee's composition brought considerable expertise to the task at hand, much of the membership reads like a who's-who of financial services and commercial consulting in Canada. Three of the 13 members, including the Chair and Vice Chair, hold powerful positions in prominent financial institutions (Sun Life Financial Inc., BMO Nesbitt Burns, and Freedom 55 Financial). An additional three members hold prominent

[22] The Task Force acknowledges the OECD for its "willingness … to share helpful insights" (2010:1), an example of vertical policy diffusion. The Task Force similarly recognizes Australia, New Zealand, the U.S. and United Kingdom for their leadership and input on the topic, showing evidence of horizontal diffusion.

positions in private sector consulting and publishing firms (SECOR Consulting, Venture Publishing Inc., and Polestar Communications Inc.). The community organizations represented on the committee include Advocis, which is the professional association for financial advisors in Canada; the Native Commercial Credit Corporation (SOCCA), an organization that supports the development and expansion of Aboriginal businesses; and Credit Canada, which is a non-profit organization specializing in financial education and debt resolution. Noteworthy funding partners of Credit Canada include Capital One, RBC Royal Bank, TD Canada Trust, and BMO Financial Group, all of which are large and influential financial institutions. While the Task Force committee includes individuals from a number of different sectors, it selectively includes individuals from organizations that are aligned with the ideological and practical goals of financial literacy education.

Having explored the roles of the OECD and the Task Force in shaping the financial literacy education discourse, we can see how the mechanisms involved homogenize and disseminate the hegemonic rational choice perspective on personal debt (i.e., the rational choice perspective) while shutting down opportunities for others with diverse views to contribute. I will now turn to examining specific financial literacy policy documents and educational materials to demonstrate how the rational choice perspective is realized in the discourse.

II. RATIONAL CHOICE THEORY IN FINANCIAL LITERACY EDUCATION

An examination of selected financial literacy policy reports and educational materials reveals evidence of the rational choice perspective.[23] This is true in terms of the

[2] The method for the analysis of the financial literacy literature is based on critical discourse analysis (CDA). CDA is a method that builds on Foucault's work on knowledge and power, and was first put forward as a loose framework by Fairclough (1989, 1995). Fairclough's CDA focuses on describing,

content of the policy discourse, as well as the *principle* of the solution itself. At times this evidence is implicit, while at other times it is more overt. Three main sources have been chosen for analysis. These include two reports from the OECD: *Promoting Consumer Education* (2009) and *Advancing National Strategies for Financial Education* (2013), the latter of which was produced in concert with the G20 under Russia's presidency. These two reports summarize member countries' national strategies regarding consumer and financial literacy education, and present recommendations from the OECD for nations to incorporate into their own strategies. The third source is a report published by the Canadian Task Force on Financial Literacy (2010) entitled *Canadians and their Money*, which puts forward the Task Force's recommendations for a national financial literacy strategy in Canada based on extensive public consultation. Other minor sources related to Canada's strategy have been referenced as well.

My goal is to summarize the main themes of the financial literacy trend at both the national and international levels, and demonstrate how it is informed by and perpetuates a common, inadequate conceptual understanding of personal debt that is based on rational choice theory. This foundation will inform the discussion in the third part of this chapter, where I will argue that financial literacy education is inadequate to solve the debt problem because it is based on an inadequate understanding of the problem.

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explaining, and understanding the dialectical relationship between discourses (or "texts") and social reality (English et al. 2012:19; Rahimi and Riasati 2011:109). Discourse refers to how social problems are constructed and defined using language, and how texts influence how phenomena are understood.

1. The Content: Rational Choice in the Financial Literacy Policy Reports

A close reading of the selected financial literacy policy reports reveals ideas about society and individuals that align with the rational choice perspective. This includes a view of the economy as a straightforward aggregation of individuals, a limited view of individuals as economic actors, an understanding of citizenship that defines responsibilities and rights in economic terms, and an emphasis on deferring to expertise in the context of a complex and changing economic system.

A. The system is equal to the sum of its parts. Like rational choice theory, the financial literacy education literature atomizes society by proposing an individual-level response to a systemic problem. Because the system is seen as equal to the sum of its parts, systemic stability therefore stems directly from sound individual choices. Financial literacy is not only beneficial for individuals in terms of improving their capability to make responsible, informed choices and improving finances at the individual level. It is also in the public interest to have a financially literate citizenry, since healthy individual finances, in aggregate, lead to a healthy and stable economy.

The following passage from the OECD illustrates this position: "Financially educated individuals are necessary to ensure sufficient levels of investor and consumer protection as well as *the smooth functioning, not only of financial markets, but of the economy as a whole*" (OECD 2005, as cited in OECD 2013:42, emphasis added). The Task Force echoes this sentiment, promoting the "ever-increasing value and importance of financial literacy to *individual Canadians, families and the nation's prosperity*" (Task Force 2010:10, emphasis added). Adequate financial and consumer literacy is described as "fundamentally indispensable for the development of a *sound marketplace*" (OECD

2009:65, emphasis added), and may even "lessen the magnitude of future crises" (Message from Russia's G20 presidency, OECD 2013:3). These brief excerpts highlight the notion that systemic wellbeing stems from individual financial knowledge, choices, and security.

B. Citizen as homo economicus and the doctrine of individual choice. The portrayal of citizens in the financial literacy policy reports is consistent with the rational choice theory conception of the individual as *homo economicus*, the idealized economic actor. The reports emphasize the capacity of individuals to assess risk and to make rational, calculating consumption and investment decisions. Financial literacy education teaches people how to "make the best use of the resources they have" (Task Force 2010:11), i.e., how to maximize their self-interest through optimal and efficient choices utilizing available resources.

Like the rational choice perspective, the financial literacy literature promotes maximum availability of choices for individuals. Proponents of this perspective frown upon excessive government regulation in order to achieve market stability, subscribing instead to the doctrine of individual choice and the notion that "the market knows best." This is seen as the most efficient way for a market economy to function. For example: "At a basic level, it is simply about people functioning *efficiently* within a society. Financial literacy contributes to this vision as it gives people *choices* (…)" (OECD 2013:42, emphasis added). When individuals are appropriately educated, they can make "informed *choices … so as to achieve a balance between consumers and providers in markets*" (Mexico's submission, OECD 2009:103, emphasis added). That is, if individuals are able to perform actions within the market arena that are responsible and

informed, then market balance can be achieved, thus diminishing the need for strict regulations. By exercising their right to choice as consumers in the economic arena, individuals can make responsible choices that favour sustainability at the individual and systemic levels.

In pursuit of a solution to the debt problem, proponents of financial literacy education do more than just *emphasize* the economic dimension of social actors. They also seek to *enhance* the economic dimension by promoting the education of citizens as *investors* as well as consumers. There are two main reasons for this. First, proper education and knowledge will, ostensibly, protect individuals in their investment activities. Second, investment education will presumably promote the deeper participation of individual economic actors in financial markets, including the securities market. For example: "In India, savers need to be *converted into investors*. Greater participation by domestic retail investors in the securities market will yield dividends by increasing the depth of the securities market, reducing the dependence on foreign investors" (India's submission, OECD 2013:128, emphasis added). In the European Union, securities investment was built into a recent financial literacy initiative. The European Stock Market Training initiative, coordinated by the European Savings Banks Group in 2013, involved teams of youth ages 14 to 19 who managed virtual securities portfolios for a ten-week period via an internet simulation. The goal was "to familiarise students with the functioning of stock markets" (OECD 2013:314). These are examples of efforts to deliberately expand the capacity of individuals as economic actors, increasing their participation in capitalist financial markets.

C. Citizen responsibility. Increased participation in financial markets comes with increased responsibility. The words *responsible* and *responsibility* are prominent in the financial literacy literature at both the international and national levels, as well as related words like *prudent, sound, wise* and softer relatives such as *informed, appropriate,* and *proactive.* Other terms used are more value-laden, such as *desirable* and *proper.* Financial literacy reports discuss the importance of defining individuals' responsibilities as citizens, and educating individuals on those responsibilities as economic agents. For instance, the Financial Consumer Agency of Canada's[24] (FCAC) public-facing *Economic Action Plan* website declares that a "strong and stable financial system *depends on the ability of its users to make informed decisions*" (Government of Canada N.d.:"Enhancing Financial Literacy"). Here we can see the belief that the strength and stability of the financial system depends on the choices of individuals.

Furthermore, the OECD expresses the view that individuals are responsible to fill gaps left by cuts to public spending, arguing that "[i]ndividuals across the globe and living in different economic, financial and social environments have to take more *responsibility* for their future financial well-being and protection" (OECD 2013:16, emphasis added). Consistent with neoliberal privatization projects in recent years, these expenses include "planning for their retirement, … financing long-term health care needs, insuring the impact of more frequent natural catastrophes and financing children's education" (OECD 2013:16). Justifications include rising life expectancy, instability in job markets, and persistent economic difficulties. As informed financial consumers,

[24] The FCAC is an agency of the Canadian federal government. Part of its mandate is to coordinate and collaborate on financial literacy education efforts in Canada. The FCAC also houses the Financial Literacy Leader, an officer who is mandated to lead initiatives to strengthen financial literacy at the national level under Canada's national strategy.

individuals will be able to act more responsibly with the resources at their disposal in order to cover these expenses.

D. Empowerment and citizens' rights. In addition to enhancing individuals' capacity and responsibilities as economic actors, financial literacy education also empowers individuals by strengthening their rights as citizens and consumers. For instance: "Financial literacy is not limited to inducing 'financially *responsible'* conduct but is considered an additional element on the road to strengthening *citizens' rights*" (OECD 2013:44, emphasis added). Through improved financial literacy, citizens will be "able to exercise their *rights"* as well as "understand their *responsibilities*" (Task Force 2010:20, emphasis added). Consistent with the atomization of society into individuals, the financial literacy literature presents power in a very atomized, individual sense, rather than as a phenomenon with structural origins. Power is emphasized as individual empowerment, and individuals can exert their power by exercising their rights as economic actors, which in turn will affect aggregate economic conditions.

Empowerment may be understood as the "capability to *exercise consumer rights* with proper knowledge and desirable attitudes and behaviours for ethical consumption" (Korea's submission, OECD 2009:99). Knowledge gained through financial literacy education will empower individuals "with an awareness of [their] rights, knowledge of how to defend [themselves] against various pitfalls and to cope with the subsequent consequences, as well as the ability to act proactively in the marketplace" (OECD 2009:7). That is, financial literacy education "empowers" individuals to make optimal economic choices through an increased awareness of their rights, which "enables them to have a voice as consumers and citizens" (OECD 2013:42). Through consumer education,

individuals are taught to be aware "of the social and environmental consequences" of their consumption choices (OECD 2009:7). For instance, individuals are responsible to practice sustainable consumption, refraining from wasteful overconsumption and thereby reducing excessive resource exploitation. This is also true in terms of the financial choices individuals make, which not only affect the financial wellbeing of the economic actor, but the wellbeing of the system as a whole. In this way, individuals are "empowered" to contribute to desired outcomes through their consumption choices.

E. Complexity, opacity, and change. Although individuals have the responsibility to make sound financial choices and are "empowered" by the choices available to them, the nature of the economic system can make it difficult to make optimal choices. The reports from the OECD (2009; 2013) and the Canadian Task Force (2010) acknowledge increasing complexity and change in the financial sector, influenced by globalization and new technologies, as a challenge to individuals. This is particularly true for those with low levels of financial literacy. However, individuals are nonetheless responsible for maintaining their financial literacy in this environment.

In light of this complex and changing environment, financial firms are responsible for providing marketing and informational materials in clear, accessible language that can be easily understood by the average consumer. They are critiqued for not doing so (Senate Standing Committee on Banking, Trade and Commerce 2009, as cited in Task Force 2010:70). Governments, on the other hand, are responsible for protecting consumers through financial sector regulation, consumer protection legislation, and financial literacy education: "Regulators have a responsibility to stay abreast of the rapidly evolving field of financial services, to be vigilant in supervising financial

institutions and to be proactive in disseminating consumer education materials and messages" (Task Force 2010:21). Whether existing financial sector regulations and supervision are sufficient to protect consumers is highly questionable. However, financial knowledge provided by government can protect consumers from, for example, unfair lending practices, fraud, and Ponzi schemes. The responsibilities of regulators, financial firms, and individuals are seen as mutually strengthening one another (OECD 2013:204).

F. Expertise. Regarding financial literacy education, the main responsibility of regulators and financiers is to *inform* the national financial literacy strategies and the content of educational materials. All the reports consulted emphasize that educational materials and programs should be informed by "experts." For instance, note the repeated use of the word "expert" in the Netherlands' submission to the OECD, which describes how their national strategy is governed: "*Expert* groups are formed on an ad hoc basis to address specific issues and topics. Currently there are *expert* groups for two core projects…. The *experts* [sic] groups consist of *experts* from main stakeholders for the specific issue/topic" (OECD 2013:209, emphasis added). The importance of deferring to expert advice is readily apparent in this passage.

In addition to emphasizing expert input to financial literacy education, the policy reports emphasize the importance of deferring to expert advice when individuals are facing important financial decisions. One of the recommendations from the Task Force is that people should be educated to know when to seek expert advice from a financial sector professional (Task Force 2010:43-4). This is seen as important due to the increasing complexity of financial products and the increasing financial responsibility placed on individuals throughout the life cycle (e.g., funding retirement savings,

education, health expenses). However, the reports send a somewhat contradictory message of empowering citizens through knowledge, providing the confidence and skills to make responsible choices, while at the same time emphasizing the importance of deferring to "high-quality", "unbiased" expert opinions (Task Force 2010:8). To their credit, the Task Force also recommends educating individuals on how to evaluate the quality of that advice.

G. Should expert advice supersede individual choice? The recommended power and reach of "experts" goes beyond informing financial literacy education and providing unbiased advice. In the Task Force's (2010) recommendations, the influence of experts also extends into what should be done when individuals fail to make "rational" choices. The prevailing sentiment is that improving financial literacy *will* produce more responsible financial behaviour among individuals, which in turn will improve individual and collective welfare. For instance, India's submission to the OECD assumes that a "well-educated household *will* make regular savings, investing in appropriate channels and contributing to income generation" (OECD 2013:128, emphasis added).

However, others acknowledge that a gap may remain between individuals' *knowledge* and their *behaviour*. Drawing on insights from behavioural economics, the Task Force recognizes that "a wide range of psychological, social and institutional influences can impede rational decision making" (Task Force 2010:7). If consumers are financially literate but fail to follow through on their knowledge, the Task Force recommends "nudging"[25] mechanisms around savings and pensions, to assist or

[25] "Nudging" refers to an approach where individuals will be "nudged" towards making particular financial decisions around savings and pensions. An example is auto-enrollment or auto-escalation mechanisms in

"empower" individuals to make the best choices:

> Increasing financial literacy may indeed be only one part of the solution: some individuals may have the financial skills and knowledge, but fail to make or execute plans in their best interest because of psychological factors that affect decision making. In that regard, policy-makers should not underestimate the value of designing 'nudging' strategies, such as default mechanisms for saving, to help empower individuals and households in their financial decision-making processes. (Task Force 2010:86)

This changes the decision-making process from a positive decision to a negative decision. In most situations, individuals must choose *to do* something from an array of available options, where inaction results in no financial decision. With nudging mechanisms, individuals are auto-enrolled in a particular program or plan, and then must opt out, i.e., choose *to not do* something. In the latter scenario, inaction by individuals results in an action that has been chosen and designed by experts as the default.

So not only should experts inform strategies and education materials, the Task Force (2010) recommends that they should also be granted the power to make the "right" choices for individuals when individuals are unable, or unwilling, to make such choices for themselves. It is feasible that some individuals may benefit in material terms from these "nudging" mechanisms. However, this contradicts the rational choice tenet of empowerment through individual choice. While the Task Force promotes nudging mechanisms as *empowering* individuals, it is actually works to disempower them. When responsibilizing individuals fails to elicit desired financial behaviour, the alternative is to paternalize them. Thus, while the rational literacy perspective is evident as the foundation of the financial literacy literature, the doctrine of individual choice appears to be

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pension programs, where individuals are given the option to opt *out* of an automatic change to their plan, rather than opt *in*to a potential change in an existing plan (Task Force 2010:54)

negotiable as these “nudging” mechanisms exemplify a willingness to support more coercive mechanisms to produce desired individual “choices”.

2. Rational Choice in Canadian Financial Literacy Education Textbooks

The rational choice perspective is not only evident in the policy reports; it is also evident in the educational materials that put this perspective into practice. Two financial literacy textbooks currently used to provide financial literacy education in formal schooling are *The City* (2008), published by the Financial Consumer Agency of Canada (FCAC) and the British Columbia Securities Commission (BCSC); and *Money and Youth* (Rabbior 1997/2012), published by the Canadian Foundation for Economic Education (CFEE). While Arthur (2012) provides a detailed critique of both textbooks, only key points of his analysis will be highlighted here.

A. Middle class bias. According to Arthur (2012), *The City* exclusively focuses on personal financial issues without any consideration for structural economic concerns such as poverty, inequality, unemployment, and crises. For example, none of the fictional characters in the textbook’s realistic financial scenarios are unemployed or use the food bank. Rather, they are all either “middle, upper middle class or on their way there” (Arthur 2012:7). The textbook therefore “does not support any alternatives to the dominant narrative of progress in which everyone is middle class” (Arthur 2012:7). Perhaps this bias exists, in part, because the middle class is the ideal for which individuals should strive, and also because individuals who are middle, upper middle class or “on their way there” are also likely to carry the most sizeable debt loads (mortgages, secured lines of credit, student loans, etc.). Thus, they may be seen as the

most important financial consumers to target in order to achieve and maintain systemic stability.

B. Individualization of structural phenomena. The textbook published by the CFEE (1997/2012) entitled *Money and Youth* is more promising than *The City*, according to Arthur (2012), but is still limited. For example, it addresses "the precariousness many workers face because of global competition" (Arthur 2012:8). However, it avoids any *critical* engagement with globalization, an important structural phenomenon, instead naturalizing the issue by referring to both the challenges and opportunities that globalization presents. Furthermore, while both textbooks are presented as and appear to be beneficial education resources, they present the individualization of economic issues "as a 'neutral' or 'natural' fact of life", supporting the view that there is no alternative other than "to devolve responsibility for economic risk to the individual *qua* consumer" (Arthur 2012:10).

3. Effects of Financial Literacy Discourse Dissemination

These are the commonsense conceptual understandings that underpin the rational choice perspective, which is being promoted and disseminated by the OECD and the Canadian Task Force, and which informs the financial literacy policy reports and educational materials. As financial literacy education is increasingly disseminated, the rational choice perspective will become increasingly homogenized, hegemonized, and naturalized.

There are a number of recommendations for delivering financial literacy education. Both the OECD (2009; 2013) and the Task Force (2010) promote financial literacy education as a life-long effort, to be delivered through multiple outlets. These

delivery methods include government benefit programs, "teachable moments,"[26] and formal schooling from kindergarten to grade 12. There are two general approaches for delivering consumer education in schools: as a standalone subject, or as a multidisciplinary approach, incorporated throughout existing curricula for subjects such as math and social studies. Reaching children at a young age is seen as important for developing the knowledge that will lead to responsible and informed citizen conduct as children grow into consumers and investors.

In the reports consulted, education is recognized as citizenship training. For example, Brazil's submission to the OECD explicitly states that one goal of its consumer education strategy is "[t]o train for citizenship", where citizenship is conceptualized as "exercising rights and duties in an ethical and responsible manner" (OECD 2009:77). Portugal's submission describes how one teacher's resource called the *Guide to Consumer Education* was designed to "help teachers include consumer-related topics in the school curriculum, with a *citizenship* and sustainable perspective" (OECD 2009:120, emphasis added). Other countries, including Spain and the U.K., are offering consumer education through dedicated citizenship courses (OECD 2009:132, 153).

As financial literacy education is increasingly disseminated through formal schooling, as is already underway in Canada,[27] the presence and thus the naturalization of the rational choice perspective will become increasingly pervasive. Presenting the

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[26] "Teachable moments" refers to those life events during which a particular issue becomes most relevant to individuals, i.e., when facing a major financial decision. At these moments, individuals are most likely to learn and retain information because they are personally invested (OECD 2013; Task Force 2010).

[27] Schooling is the jurisdiction of the provinces in Canada, and as of 2010, British Columbia, Manitoba, and Ontario had either implemented or were on their way to implementing financial literacy as a mandatory component of schooling as early as kindergarten (Task Force 2010:34).

rational choice perspective to children during their most malleable years will contribute to creating citizens who have internalized the role of the idealized, responsibilized, atomized economic actor, or *homo economicus*. Arthur (2012) calls this type of citizen the "consumer citizen." Thus, financial literacy education as the solution to personal overindebtedness must be seen as a means of normalizing and hegemonizing discourses of individualism and responsibilization, embedding them in our culture and practices while diverting attention from those capitalist structures and institutions that are truly culpable for the personal debt problem.

III. FINANCIAL LITERACY EDUCATION: IMMANENT CRITIQUE

The principle and the content of financial literacy education are based on the rational choice perspective. In chapter two, I argued that rational choice theory is an inadequate framework to *explain* the debt problem. Having provided evidence of how the rational choice perspective underpins the financial literacy literature in section two of this chapter, I will now demonstrate how it is insufficient to *solve* the problem.

In general, the financial literacy approach responsibilizes individuals for a systemic crisis. That is, by decontextualizing and depoliticizing the personal debt problem as well as the solution, the financial literacy discourse constructs individuals as disproportionately responsible for a problem they could not have created alone. Despite the emphasis on empowering individuals through knowledge, the financial literacy approach actually *dis*empowers individuals by teaching them that they are responsible for maintaining both personal and systemic financial stability, even though they lack the full capability to do so. This is a disproportionate amount of pressure to place on individuals whose ability to exert agency against the forces and contradictions of the contemporary

capitalist system is inherently limited. In this part of the chapter, I will examine the shortcomings of financial literacy education, first, as an approach that responsibilizes all individuals, but that disproportionately responsibilizes disadvantaged or vulnerable groups. Then, I will consider the structural factors that financial literacy education cannot address. The financial literacy policy reports have addressed two of these factors, but insufficiently. These are the complexity and opacity of the financial system, and the cultural phenomenon of consumerism. Subsequently, I will turn to examining those structural forces that have been ignored entirely, including the degree to which both individuals and the economic system depend on debt, and will conclude by explaining that an individual level solution to a problem with systemic origins cannot be successful.

A. Middle class bias and the responsibilization of disadvantaged groups. Financial literacy education as the solution to personal overindebtedness responsibilizes individuals, but it does not responsibilize all individuals equally. As a skill, financial literacy depends on a number of foundational skills that include prose literacy, oral fluency, problem-solving and numeracy skills, which vary with demographic characteristics such as socioeconomic status, education, minority status, and income (Bramley 2012:718). Thus, financial literacy education is most likely to benefit those who are already positioned to take advantage of it, namely, those with the necessary educational foundations, and those who actually have resources to "responsibly" manage. These individuals are most likely to belong to the middle or upper-middle class. Furthermore, the Task Force emphasizes the role of parents in fostering the financial literacy of their children: "Parents have a role to play in fostering a home environment in which the whole family can discuss and learn about money" (Task Force 2010:20).

However, not all children are fortunate enough to have a home environment with capable and willing parents to guide them in developing their financial literacy knowledge, and yet they will be expected to make responsible financial decisions as they grow into independent economic actors.

Targeted education programs in the financial literacy literature are a mechanism by which various vulnerable and disadvantaged groups are disproportionately responsibilized. In Canada, the Task Force (2010) has identified low-income Canadians, the elderly, recent immigrants, Aboriginal people, people with disabilities, women, and single adults as requiring particularly focused financial literacy education efforts. While these groups are not portrayed as responsible for the financial crisis, they are being responsibilized for their own conditions, assuming that their present lack of financial wellbeing is a result of their present lack of financial literacy. By the logic in rational choice theory, teaching people how to responsibly manage their money should somehow offset the structural disadvantages they are facing. However, the larger problem may stem from inequities in educational foundations, and the fact that many individuals lack money to manage.[28]

Financial literacy education is geared towards and most likely to benefit individuals who belong to the middle or upper-middle class. The financial literacy education approach may actually exacerbate existing inequalities, especially in the era of neoliberal hegemony, where increasing inequality is a key characteristic. However, the ability of all individuals (especially those with low levels of financial literacy) to make rational, responsible financial decisions is hindered by a number of contextual factors,

[28] As Barbara Ehrenreich (2012) has succinctly put it: "poverty is not … a cultural aberration or character flaw. Poverty is a shortage of money."

which I articulated in my alternative theoretical framework. The first factor that I will address here is the nature of the financial system.

*B. Financial system complexity and opacity***.** The complex and opaque nature of the contemporary financial system presents a challenge to individuals' ability to make rational, responsible financial choices. Leading up to the 2008 financial crisis, it caused problems for consumers and financial "experts" alike. Even industry insiders were unable to fully understand the products they offered and how they worked (Harvey 2011:24-5), and their behaviour demonstrates that even they were unable (or perhaps unwilling) to make wise decisions based on available information.[29] Altman (2011) points out that the U.S. Securities and Exchange Commission, an agency with highly financially literate regulators, was unable to detect fraudulent behaviour in the financial markets. For example, Bernie Madoff defrauded investors of over $40 billion US through a massive securities fraud Ponzi scheme over the course of four decades before he was finally caught.[30] Also, because of the complexity of the system, investors were incapable of judging the quality of Madoff's securities to determine that they were not the high-rated, low-risk investments they appeared to be.

Because of these challenges presented by the complex and opaque financial system, and because of their "irresponsible" behaviour, regulators and financiers have lost the trust of much of the citizenry, as evidenced by recent social movements like Occupy Wall Street. However, these so-called "experts" have been selected to inform the content of financial literacy education today. On the systemic level, recent efforts toward

[29] This argument is made with the recognition that the nature of decisions made by bankers and investors may differ significantly from those made by consumers, but occur in, and require knowledge of, the same abstruse system.

[30] Similar Ponzi schemes occurred in Canada on smaller scales.

re-regulation are not sufficient to compensate for this complexity and opacity, and yet, individual actors are expected to make responsible decisions in this environment in order to protect themselves and ensure systemic wellbeing.

C. Consumerism. The cultural phenomenon of consumerism is a second contextual factor that presents a powerful challenge to rational, self-interested decision-making by individuals. While consumer culture does not go completely unacknowledged by the Task Force, their consideration of the topic is superficial and their proposed response to the challenge is inadequate. One theme from the Task Force's public consultations was that the debt problem can be attributed in part to a "culture that tends to encourage consumption and immediate gratification" (Task Force 2010:57). The way that the Task Force proposes to deal with this phenomenon is by teaching the importance of differentiating between "needs" and "wants" through financial literacy education delivered to youth (Task Force 2010:61).

Consumerist ideology is a powerful non-rational motivator that drives people to consume beyond their means, and that cannot be unproblematically overcome by simply teaching people that they should not make irrational consumption choices. Oftentimes, people are aware that certain choices they make are irrational. How can financial literacy education possibly compete with the messages disseminated by the modern advertising industry, whose *raison d'être* is to blur the line between needs and wants? Consumer culture was deliberately created during early capitalism via the advertising industry to drive consumption (Ewen 1976). It has been deliberately maintained and advanced for the same reason, and the advertising industry has only developed more innovative and persuasive techniques since then. Furthermore, firms pay millions if not billions of

dollars to advertise their products and services so that people will want to spend their money (or future earnings) on their wares. For instance, in 2013, global financial services giant J.P. Morgan Chase spent a total of $1.88 billion on marketing (TV, magazine, Internet, newspaper, etc.), while L'Oreal spent $2.34 billion, and Proctor and Gamble spent $5 billion (Taube 2014). Surely, the budgets for developing compelling financial literacy education programs pale in comparison.

Not only do advertising efforts have enormous budgets, they also incorporate the most up to date psychological research. Consumer psychology is a standalone discipline that exists to predict and influence consumer behaviour. Some suggest that advertising is designed to deliberately stimulate anxiety so that individuals will seek a release through consumption (Cohen 2007:61). Therefore, consumers may use credit to consume beyond their means to preserve their mental health in the short-term, despite awareness of the harms of accumulating high levels of consumer debt, and potentially despite knowledge of related harms, such as environmental damage resulting from collective overconsumption. In this way, the financial literacy literature insufficiently addresses the challenge that consumerism presents to financial wellbeing. I will now turn to describing the structural forces that are neglected in the financial literacy discourse.

D. Individual dependence on debt. While consumerism drives people to overspend on their "wants", other structural factors drive people to spend beyond their means to meet their "needs." Individuals too often depend on debt to finance various necessary expenses, which range from financing post-secondary education to bridging the gap between paycheques. This is especially true in the context of stagnating wages, rising cost of living, and neoliberal dominance in policy-making, which drives processes of

privatization, deregulation, and welfare state dismantling. Policymakers justify these processes by invoking free-market rhetoric or the "necessity" of austerity during times of economic slowdown (McNally 2011).

The financial literacy policy reports consulted state that individuals must take more responsibility for their financial wellbeing and planning for the future. This includes maintaining a personal safety net of savings and planning to privately fund their own pensions and healthcare needs. But the personal debt problem results, in part, because individuals are increasingly forced to rely on debt for necessary expenses such as these in the context of a receding welfare state. People are given more *responsibility* for financing these costs without a proportionate increase in *means,* such as guaranteed wage increases to keep up with inflation and rising costs of living. These conditions can cause immense financial strain that cannot be easily resolved by even the most responsible, knowledgeable financial consumers.

E. Systemic dependency on debt. It is not only *individual* dependency on debt that presents a challenge to the potential efficacy of financial literacy education. Following the prevailing narrative, many believe that nobody *forces* consumers to obtain credit cards and other loans and become overindebted. Individuals make their own choices, and consumers are therefore responsible for their own financial outcomes. In this way, the financial literacy approach attributes the characteristics of one structure (i.e., personal indebtedness as a shortcoming or moral flaw), what is due to another (i.e., necessary structural conditions for the perpetuation of financialized capitalism). While individuals do have the power to exert agency and thus are not deterministically constrained by structural forces, an alternative view portrays individuals as "victims of a financial (and

economic) system that depends on them to go deeply into debt and itself grows wealthy as a result of that indebtedness" (Ritzer 1995:11).

The capitalist ruling class depends on the proliferation of high levels of personal debt to derive profits, at least in the short term and especially in the context of financialized capitalism. By extension, their interest in transforming the system that drives debt is inherently limited. In the second chapter, I explained how the growth and profitability of capitalist industries and the capitalist system rely on the availability of personal debt and immoderate debt-fueled consumption. While arguably the long-term benefits of a more transformative systemic reform could in many ways benefit society as a whole, the immediate interests of the ruling class lie in preserving the mechanisms that allow short-term profits but undermine long-term sustainability. The capitalist ruling class is not entirely, or even necessarily to blame. Due to their position in the capitalist structure, capitalist firms are required to be shortsighted and innovative in order to maintain or expand their market share. The mindset necessary to survive and prosper in the capitalist system does not encourage long-range considerations, and the best way to perpetuate short-term gains is by perpetuating the system itself. This includes perpetuating high levels of personal debt.

If debtors were able to pay off their debts completely, they would cease to be profitable customers to capitalist lenders. Borrowers who do not pay interest or fees on their loans are not profitable in the least, like those credit card users who pay off their balance every month and are thus derisively labeled "deadbeats" by the credit card industry (Manning 2000:5). While lenders do not want their customers to be completely debt-free, it is also in their interest to keep aggregate personal debt at a level that does not

threaten systemic stability. While stabilizing debt levels and thus preserving short-term systemic stability may eliminate this particularly imminent threat for financial institutions, it does not solve the problem for individuals who are experiencing debt, or for the long-term sustainability of the system as a whole.

F. Critical realist fallacy of composition. The forgoing analysis indicates that it is not feasible to solve a systemic problem through individual actions. By asserting that it is, the financial literacy approach commits what critical realists call the *fallacy of composition*: "the assumption that, in all cases, what is possible for an individual must be possible for all individuals simultaneously" (Sayer 1992:94). Consider the dynamics around corporate competitiveness in a capitalist economy. The fallacy of composition is evident in the notion that "because individual firms may be made 'more competitive', all firms might simultaneously become more competitive without any thereby becoming less competitive, as if economic competition were a race in which all could win first prize simultaneously" (Sayer 1992:94). Similarly, some individuals will likely succeed in improving their financial wellbeing by improving their financial literacy. On the aggregate level, improving individual financial wellbeing via financial literacy may also contribute to systemic stability. However, improving the financial literacy of all individuals would not be sufficient, for instance, to abolish the parasitic need for debt by capitalist enterprises, to combat the pressures of a shrinking welfare state, or to evade the cultural motivator of consumerism, all of which thrive on debt. Because the growth and perpetuation of the capitalist system itself relies so heavily on the existence of personal debt, if the conditions of all debtors were significantly improved through financial literacy, it could cause systemic crisis and even collapse. At the same time, because

capitalism has inherent crisis tendencies that have existed as long as the system itself (McNally 2011), any solution that restores stability to the capitalist economy will not *solve* the problem, but will only *postpone* the next inevitable crisis.

IV. CHAPTER CONCLUSION

The financial literacy education discourse disseminates ideas that align with the hegemonic rational choice perspective, thus serving the status quo by contributing to systemic re-stabilization and by disseminating an ideological perspective that justifies existing economic relations. Because it encourages actions at the individual level that promote systemic stability without sacrificing *much* profitability through overly strict financial sector regulations, the financial literacy approach reinforces the system that causes the problem in the first place.

This can have negative effects for individuals and systemically. For one, it hinders awareness and understandings of economic exploitation and inequality among members of the public, which can produce negative psychological effects for indebted individuals who internalize the discourse and self-blame. Second, this internalization also produces a psychological barrier to collective action towards more meaningful reform by driving a wedge between people who blame each other for their “irresponsibility” or “moral flaws” rather than blaming the exploitative, parasitic system. Third, the long-term efficacy of a solution to overindebtedness centred on individual behaviour is highly dubious, given that the capitalist system relies on debt to expand and perpetuate, while individuals rely on debt to meet essential needs in the context of neoliberal welfare state dismantling and stagnant real wages.

In the next chapter, I will attempt to address some of the issues that the financial literacy education approach overlooks by highlighting gaps in policy development and considering what an effective solution to personal overindebtedness could look like. I will draw on more progressive policy solutions that have been put forward to create a more holistic policy and regulatory framework, and will consider the role that financial literacy education may have within that framework. However, because the potential for solving the debt problem within the capitalist system is inherently limited, since it is the system itself that causes the problem, I will also consider alternative, non-policy solutions that could address the debt problem by transforming individual lifestyles and aggregate economic relations.

Chapter Four: Recommendations

From the critical realist perspective, the objective of social science is to achieve a more adequate understanding of reality so that we are better equipped to improve it. The critical realist conception of structure and agency is crucial to the emancipatory power of critical realist research. If social problems are caused by social structures, and if social structures exist only where social actors reproduce them, then we, as social actors, have the power to *change* those structures (Danermark et al. 2002:201). The purpose of this chapter, therefore, is to consider how the underlying mechanisms identified in my alternative theoretical framework interact with the potential and proposed solutions that I discuss in the present chapter. Consistent with the transformative goals of critical realist research, I will now apply the deeper and more adequate understanding of the personal debt problem to the empirical realm to inform a more holistic approach to solving the debt problem.

In what follows, I discuss a range of proposed responses to the personal debt problem along a continuum with varying levels of transformation and feasibility. Proposed solutions stem from a broad range of conceptual understandings of the personal debt problem and of society in general. At one end of the spectrum lie the policy and regulatory changes that do no more than tweak the existing order, including narrow regulatory reforms and inadequate financial literacy education approach discussed in the previous chapter. In the middle range, there are many more progressive policy and regulatory changes that are designed to soften the inherently exploitative and crisis-prone nature of the capitalist economic system. Still others, at the far end of the spectrum, encompass more holistic proposals with the potential to address a number of interacting

causal mechanisms that are social, cultural, and economic in origin. The primary focus of this chapter is to explore those middle-range and holistic alternative approaches, each of which has its own unique opportunities and challenges. For the purposes of this discussion, these alternative proposals are grouped into four broad categories: financial sector regulation, income security frameworks, alternative lifestyles and economic relations, and collective action. After outlining background, examples, and benefits of each category, I will turn to an integrated discussion of the limitations and barriers associated with the four approaches.

I. FINANCIAL SECTOR REGULATION

1. Background

Regulatory changes in the aftermath of the recent financial crisis at the national[31] and international[32] levels alike have been criticized by some for being too stringent, and by others for being not stringent enough (Koba 2012; Roubini 2013; Wilson 2013b). The regulatory changes that have been implemented tend to emphasize responsible borrowing by the client over responsible lending by the financial institution, and to focus on maintaining systemic stability rather than consumer protection. While they are inadequate to account for the system's exploitative tendencies in any significant way, they may promote systemic stability at least in the short-term. Thus, they ignore a number of important structural conditions that drive overindebtedness for individuals.

A number of alternative policy and regulatory solutions have been put forward that could improve personal debt levels by creating more equitable economic relations and softening the intrinsic exploitative tendencies in the capitalist system. They are

[31] E.g., *The Dodd-Frank Wall Street Reform and Consumer Protection Act* in the U.S.
[32] E.g., *The Basel III Accord.*

reasonable, valid, and potentially effective. They reject the notion of minimal government intervention in a system that is inherently exploitative and increasingly complex; as the complexity of the system grows, the role of government in managing the system and protecting the interests of the people should also grow. Recent inadequate efforts to re-regulate the financial sector are characterized by "neoliberal reactivity" in that they react to economic harms produced by "free market failures" as they arise, rather than working to "proactively avoid harms" (Wilson 2013b:111). However, a more effective regulatory regime would be proactive rather than reactive, and would shift from focusing chiefly on protecting the system to protecting consumers (Bramley 2012; Nottage 2013; Papaikonomou 2010; Sagner 2012; Wilson 2013b). Such regulations would emphasize responsible lending rather than (or at the very least, in addition to) responsible borrowing, and would require greater transparency and enhanced oversight of financial sector activities.

2. Examples

Protecting consumers means that individuals should not be made responsible for financial institutions' predatory lending practices, which thrived during the heyday of subprime mortgage lending in the United States. Rather, creditors should be required to follow *responsible* lending practices. For instance, regulations should be constructed to ensure lenders do not give borrowers more credit than they can repay. In the United States context, the U.S. *Dodd-Frank Act*[33] of 2010 addresses this issue by requiring that

[33] *The Dodd-Frank Wall Street Reform and Consumer Protection Act* also includes a number of provisions in response to the Great Recession, including enhanced oversight of and provisions to break up "too big to fail" financial institutions, stricter rules regarding banks' capital reserves, prohibition of proprietary trading, and increased regulation of the "riskiest" derivatives, such as credit default swaps. Like other reforms, this bill has been criticized by some for being too stringent, and by others for being not stringent enough (Koba 2012).

lenders assess and verify a potential borrower's ability to repay a mortgage loan before it is made, including the borrower's credit history, income, all debt obligations, and other financial assets (Wilson 2013b:116). However, this provision only applies to residential mortgage loans, which is no doubt a reaction to the insufficient verification practices specifically surrounding the "no-doc" and "low-doc" subprime mortgage loans leading up to the 2008 financial crisis (Wilson 2013b:116). A more proactive approach would address potential *future* harms that could result from insufficient assessment and verification processes for *all* debt instruments in order to protect consumers as well as the system. The major problem with the regulation of credit cards, for example, is that individuals are able to rack up enormous balances on numerous cards from various providers without intervention from regulatory bodies. Credit cards are one of the most important tools used for the ongoing democratization of credit. However, overleveraging on credit cards – which are relatively high-interest, high-cost debt instruments compared to larger, asset-backed loans – can have severe effects and take years to undo. Lenders should be required to assess and verify all of an individual's debt obligations and their capacity to take on more debt before issuing a credit card or a credit limit increase, which would promote individual as well as systemic stability.

Because the financial system is complex and opaque, commentators are calling for greater transparency. For instance, Nottage (2013:189-90) calls for stronger obligations for lenders to disclose information regarding abnormal problems among their borrowers, such as unusually high rates of suicides or personal insolvencies, which would allow regulators to identify and respond to issues. Given the significant role of credit rating agencies (CRAs) in precipitating the 2008 financial crisis, Papaikonomou (2010)

calls for greater transparency surrounding CRAs, which would help protect investors as well as the system**.** Enhanced standardization and transparency of investment instruments, the rating methodologies, as well as the underlying assets, would ensure CRAs provide quality, objective ratings (Papaikonomou 2010:167). This is especially important since investors do not have the means to independently assess the creditworthiness of the borrowers whose debts comprise the investment instruments (e.g., mortgage-backed securities and collateralized debt obligations) that they are purchasing.

No matter how well a regulatory framework is constructed, it can only be effective if regulators are equipped with sufficient power and resources to be vigilant in their supervision and enforcement (Papaikonomou 2010; Bramley 2012; Wilson 2013b). In the Canadian context, Bramley (2012:719) calls for better enforcement by the Financial Consumer Agency of Canada (FCAC), which tends to impose only minor penalties on financial institutions, even for serious breaches of compliance with existing consumer protection regulations. However, the global nature of financial sector operations and the national jurisdiction of regulatory bodies make this difficult. Sagner (2012:297) suggests that "there really is no regulation of international financial firms like JPMorganChase, General Electric, UBS and Deutsche Bank. … They are global businesses in a world of national regulators." Even the Basel Committee on Banking Supervision as an international body only provides a forum for cooperation and sharing best practices rather than imposing binding regulations. The impact of the Basel III Accord therefore relies on the implementation of its provisions by signatories at the national level. In this sense, a centralized, supranational regulatory body with real enforcement mechanisms could address these challenges.

3. Benefits and Potential

Based on the analysis in chapter three, it is evident that achieving systemic stability is a main goal of the financial literacy education approach to addressing the personal debt problem, where systemic wellbeing is seen as stemming from sound individual financial choices. As my alternative theoretical framework articulates, individuals face a number of powerful structural conditions that make it difficult to maintain sufficient financial knowledge and make "responsible" choices in the current system, such as the democratization of credit, neoliberal hegemony, and the culture of consumerism, among others. Alternative regulatory proposals such as those described above would be a step towards addressing some of these conditions.

A more stringent, holistic regulatory framework would shift the burden of responsibility from borrowers to those institutions (i.e., capitalist lending institutions and government regulatory agencies) that have sufficient power and resources to foster systemic wellbeing and protect consumers. This is a more appropriate way to distribute responsibility given the imbalanced distribution of power that exists due to systemic structures that enable the behaviour of lenders while constraining the actions of borrowers.[34] The potential efficacy of this approach therefore stems from the fact that it takes aim at the system (which is the source of the problem) rather than the individual, and addresses some of the system's exploitative tendencies.

[34] As a reminder to the reader, these structures include (but are not limited to) the climate of neoliberal hegemony which favours corporate interests over the people, the ways in which the state acts in the interests of the financial sector, the culture of consumerism that drives people to over-spend and over-borrow, the complexity of the financial system and the consequential need (whether real or perceived) for "experts", and the nature of economic exchange in contemporary capitalism as highly dependent on credit.

For instance, requiring more comprehensive assessment practices could hamper the "predatory inclusion" associated with the democratization of credit, and enhanced oversight could potentially chill the highly exploitative innovation practices of capitalists in pursuit of profits. In addition to benefiting individual investors, greater transparency around credit rating practices could benefit borrowers in less obvious ways. As securities became increasingly profitable investment products for financial firms preceding the financial crisis, lenders sought to make more loans so that they could repackage and sell them as securities, which resulted in the extension of increasingly risky loans. If investors were aware of the high risk associated with their investments, they would likely be uninterested in the product, thus softening one of the major drivers for the extension of high-cost predatory loans to risky borrowers. Should they be implemented, these proposals could therefore facilitate a more equitable distribution of wealth and power, enhance systemic stability, and postpone and/or weaken future crises.

II. INCOME SECURITY FRAMEWORK

1. Background

One of the contextual factors driving indebtedness is the rising cost of living in the context of stagnant real wages and the accompanying neoliberal decline of the welfare state. While this has especially intensified the precarious conditions of the poor and working poor, it has increased inequality and financial insecurity across Canada. Therefore, a significant restructuring of the Canadian income security system is needed. Ensuring people have guaranteed access to a basic livable income – that is, an income that "provides a modest but adequate material standard of living" (Mulvale 2008:2) – can preclude people from relying on credit to meet basic or emergency needs, particularly

when coupled with a strong welfare state with robust public services. Some critics of the payday loan industry, such as Kobzar (2012:41), argue that the absence of a guaranteed basic income program is responsible for the expansion of payday lending in the first place, since borrowing to meet basic or emergency needs is a key reason that people experiencing low income access payday loans. Furthermore, a strong public safety net would address overindebtedness resulting from necessary expenses such as health care and education, and would therefore benefit Canadians of nearly all income levels.

This approach is encompassed in Mulvale's (2008:2) proposal for a Guaranteed Adequate Income (GAI) framework,[35] which includes two central components. First, it would build upon Canada's existing system to provide a more robust array of publicly provided goods and services (e.g., healthcare, education, childcare, and utilities) that individuals are increasingly pushed into the market to procure. Second, it would include a basic income program to ensure all Canadians have access to a guaranteed livable income. After providing some background on basic income as an approach to income security, I address the holistic approach to guaranteed income put forward by Mulvale (2008) with respect to addressing overindebtedness. Although other approaches exist, I will not address the potential of stripped-down, standalone basic income programs, as these approaches would not effectively address poverty and overindebtedness.

Basic income (BI), as defined by the Basic Income Earth Network (BIEN), is "an income unconditionally granted to all on an individual basis, without means test or work requirement" that is paid "irrespective of any income from other sources" and "without

[35] The acronym GAI has been widely used to refer to Guaranteed *Annual* Income as a freestanding basic income program, and is a distinct concept from the more robust Guaranteed *Adequate* Income framework that Mulvale proposes and which is discussed in this chapter.

requiring the performance of any work or the willingness to accept a job if offered" (BIEN N.d.; see also Pasma and Mulvale 2009:1). Although it is known by a number of different names that refer to different visions and models for benefit provision, the underlying purpose of a BI scheme is to establish an economic floor to ensure everyone has adequate means to ensure a decent standard of living (Van Parijs 2004, as cited in Mulvale 2008:1).

The two fundamental BI models are the Negative Income Tax (NIT) and Universal Demogrant (UD) models. The NIT model, first proposed by economist Milton Freedman, provides a more targeted approach to basic income provision. This model consists of a maximum benefit level for a person or economic unit which would be reduced based on additional income above the benefit rate or maximum allowable exemption, until a "break-even" point is reached, at which point no net benefit would be received (Pasma and Mulvale 2009:1). Although NIT benefits are reduced by a particular rate as individuals generate income from outside employment, it is not entirely eliminated until a "reasonably high amount of additional income is achieved" (Pasma and Mulvale 2009:2). To proponents of this model, the benefits of NIT are that it targets low-income individuals and families while incentivizing paid employment. Because the benefit is not provided to everybody, it also presents lower program costs to government budgets. However, critics of this model suggest that it does not address the stigma associated with traditional income assistance payments, nor does it promote social cohesion since it is only provided to the poor and therefore not all citizens are invested in it (Pasma and Mulvale 2009:1-2).

In contrast, the Universal Demogrant (UD) model is a non-taxable payment made to *everyone*, where citizenship is the only criteria for eligibility. Although the initial program costs to government may be higher because of the model's universality, benefits provided to citizens receiving employment income over a particular level would be clawed back through the existing taxation system, and thus higher-income citizens would end up receiving no net benefit. The simplicity of administering this model could result in cost-savings to government. Furthermore, proponents of the UD model argue that its universality promotes social cohesion and is less stigmatizing than the NIT model since everyone receives the benefit, not just the poor. Although those above the income threshold receive no net benefit and therefore do not have the same stake in the program as the poor, they still benefit in terms of the security they have should they face adverse life circumstances or be at risk of becoming poor. In other words, the guarantee is for everyone. This could potentially make the program more difficult for government to cut, therefore offering greater security for low-income individuals. Critics of this model feel it is too expensive to be realistic and provides a disincentive to engage in paid employment. However, some variations on BI models require, for example, that recipients be available for paid employment or engage in some type of activity of social utility (Pasma and Mulvale 2009:2). For proponents of Mulvale's (2008) approach, a BI program must be universal, must provide a truly adequate minimum income, and must be accompanied by a strong welfare state in order to be effective in providing true economic security for all.

For the purposes of this discussion, it is important to distinguish between Mulvale's (2008) GAI proposal and other approaches to BI that favour a stripped down, standalone BI program, which would not realize the same benefits of Mulvale's (2008)

GAI. Libertarians like Friedman, for example, like the idea of a standalone BI that replaces resource-intensive and complex public services (e.g., healthcare) with a simple, single cash transfer, thereby "empowering" individuals with choices as consumers in the market while reducing the costs and size of government.[36] However, replacing public services with a minimal cash transfer would leave most people worse off and would most severely impact society's most vulnerable. This approach would actually exacerbate social and economic inequality, including conditions of poverty as well as indebtedness resulting from necessary expenses and adverse life circumstances.

Furthermore, depending on how a BI program is implemented, it could reinforce the hegemonic power structures in society that allow capitalist firms to exploit labour through inadequate pay and poor working conditions, and could undermine worker rights and bargaining power (Sanger 2016). That is, similar to some existing income security structures (e.g., employment subsidies), a BI delivered as a standalone wage supplement could be considered a massive subsidy to capital by allowing employers to pay wages below the poverty line, or less than living incomes, due to the guarantee that wages would be topped up by government to ensure labourers are able to meet their basic needs. As such, to augment worker power and avoid subsidies to employers, a BI program must be delivered in concert with high or living wage regulations as well as full employment policies (Sanger 2016).

[36] Commentators have pointed to the use of republican political theory, strongly aligned with rational choice theory, as justification for BI. Because republican (and rational choice) theory revolves around the notion of individuals as independent economic actors making free choices in the market, republican theory therefore lends support to security measures like BI that ensure no conditions interfere with the capacity of individuals to make free choices and execute their life plans (Mulvale 2008:15).

Lastly, while greater income security could support vulnerable groups to achieve greater stability and quality of life, a standalone BI program could also have the opposite effect, as a universal payment could be seen as an equalizer where all groups are effectively treated the same, erasing structural issues of inequality along such lines as gender, age, ability, and perceived race. Complementary policies are thus needed to address those persistent inequalities. For instance, a BI program could allow greater economic independence and support women who stay in abusive relationships for economic reasons and acknowledge the value of unpaid work that is disproportionately performed by women. However, affordable and accessible childcare must also be available to support women who wish to work in the paid workforce, given the tendency for women to carry greater caregiver responsibilities (Young and Mulvale 2009:9-10). For these reasons, I address the benefits and potential of Mulvale's (2008) GAI framework in below and not a standalone BI program, which I have demonstrated would be ineffective with respect to personal overindebtedness resulting from inadequate economic resources to meet basic or emergency needs.

2. Examples

Although Canada has a history of a relatively strong welfare state, a full BI program has not yet been realized in Canada, nor does an example exist globally.[37] However, there are small examples of BI programs in income security frameworks in Canada and worldwide. While the broader welfare state is an indispensable component in Mulvale's (2008) GAI, an analysis of the full social safety net framework behind these

[37] In comparison to, for example, the United States, Canada's publicly provided goods and services are relatively strong. However, services like Canada's universal health care system and public education system are increasingly under attack in the era of neoliberal privatization.

various BI examples is beyond the scope of this section, which will focus on BI as a potentially underutilized approach to income security provision.

Canada's current income security system is a two-tiered system that includes two components: federally provided social *insurance* and provincial social *assistance.* The second tier, the social *assistance* component, offers "only minimal, means-tested financial support for the poor, disabled, and long-term unemployed in a manner that [is] stigmatizing to recipients and subject to bureaucratic discretion" (Mulvale 2008:3). In contrast, the top tier social *insurance* component is relatively generous for retired or temporarily unemployed labour market participants. There are elements of BI in Canada's social insurance system, including universal demogrants like Old Age Security (OAS), a universal benefit for seniors that also includes an income-tested Guaranteed Income Supplement (GIS) for low-income seniors, and the National Child Benefit (NCB), an income-tested benefit for families with children (Mulvale 2008:3-4). The Canada Child Tax Benefit, the partial refund on the federal goods and services tax for low-income tax filers, is consistent with the NIT model (Mulvale 2008:8). In addition, the Universal Child Care Benefit (UCCB) can be considered a demogrant in that it is a universal, non-income-tested benefit paid to all families with children, but its taxable aspect aligns with the NIT model (Canada Revenue Agency N.d.).

Full BI programs have also been piloted on a small scale in Canada as well as internationally. A guaranteed annual income program (known as "Mincome") was piloted in Dauphin, Manitoba from 1974 to 1979, jointly funded by the federal and provincial governments. The primary goal of this project was to determine whether a minimal guaranteed income would result in a disincentive to paid employment and subsequent

reduction in labour activity among participants. The pilot was cut short without proper evaluation after the Conservatives took power in the provincial and federal governments in 1977 and 1979, respectively, but Hum and Simpson (1993; 2001) more recently revisited the records to draw some conclusions.[38] The researchers found that there was a reduction in work effort but it was very modest, at around one percent for men, three percent for married women, and five percent for unmarried women (Hum and Simpson 2001; see also Mulvale 2008:6). The pilot also demonstrated that a BI program was feasible from an administrative perspective and could be integrated with other public services, but that there were complexities and challenges associated with delivering benefits to families who experienced multiple changes in family structure or changed addresses frequently, as well as to individuals who were farmers or self-employed (Hum and Simpson 2001; Mulvale 2009:7).

On the international level, there is currently a good deal of interest in BI programs in Europe, and the Dutch city of Utrecht is planning to implement a pilot BI program starting in January 2016. The Utrecht pilot will provide increased payments to welfare recipients without restricting how the money must be spent, but because the pilot will be limited to existing welfare recipients, it will not consider or benefit the working poor (Perry 2015). A bit closer to home, Alaska's Permanent Fund Dividend (PFD) is an example of a small basic income program that is paid to all citizens. However, in the

[38] The sample for the Mincome pilot consisted of 1,300 Manitoba families and single individuals under a particular income threshold (approximately $13,000 in 1975 dollars for a two-adult, two-child family) who were selected and randomly assigned to three different GAI plans for the duration of three years. The GAI plans featured different combinations of support levels ($3,800, $4,800, and $5,800 in 1975 dollars) and tax-back, or benefit reduction rates (35 per cent, 50 per cent, and 75 per cent). The experiment also included a control group who remained on the existing welfare program. Researchers studied labour-supply response by measuring the effect of the guaranteed income on change in hours worked (Hum and Simpson 1993; Hum and Simpson 2001).

context of the state's fiscal crisis resulting from declining oil prices and production, the program is coming under increasing political attack (Widerquist 2015), which points to potential feasibility challenges associated with implementing a basic income program on a wider scale.

3. Benefits and Potential

A basic income program accompanied by an extensive array of publicly provided services and goods, would help to address overindebtedness by improving financial security for all citizens. I address the benefits and potential of Mulvale's (2008) Guaranteed Adeqaute Income framework here, and not the standalone BI program of the sort favoured by libertarians. Enhanced public services would allow middle- and upper-income Canadians to avoid taking on hefty debts to finance expenses like post-secondary education, and the public provision of childcare programs would minimize financial strain during childrearing years. The poor and working poor would have a secure means to meet their basic and emergency needs, and expensive services like childcare and post-secondary education would become more accessible. Furthermore, the availability of publicly funded post-secondary education for all citizens would contribute to a more equitable, inclusive, and free-thinking democratic society and to increased opportunity for social mobility.

While traditional models of social assistance provision are typically thought to exclusively benefit the poor and working poor, a universal BI program would benefit all Canadians. The existing social assistance system tends to be stigmatizing, punitive, and inadequate, with high administrative costs due to its complexity. In contrast, a BI program would be simple and efficient to administer and would provide real security for

all citizens. While the poor and working poor may be the most obvious beneficiaries, a BI program would also provide security for those at risk of becoming poor, such as workers in casual, flexible, or seasonal employment. Not only would a GAI framework provide an adequate safety net, it also has the potential to transform over time the stigma associated with dependence on government transfers and with individual failure in general.

In terms of the conditions facing low-income debtors described in chapter two, a GAI framework, but not a standalone BI program, is a much more suitable solution to the harms of the predatory payday loan industry than financial inclusion. Consistent with the rational choice perspective and similar to financial literacy education, financial inclusion atomizes society in its attempt to provide an individual level solution to a problem with systemic origins. Financial inclusion proponents argue that "[i]n a modern consumerist society, most consumers will occasionally need credit to meet what are considered to be basic needs in the context in which they live" (Wilson 2013b:127). However, as articulated in my alternative theoretical framework, accessing credit to finance basic needs is a key component of financialization (McNally 2011) and a core component of Ross's (2013) concept of a creditocracy. In contrast, a GAI framework would recognize that individuals should be able to meet their basic needs as a right of citizenship without "needing" to access loans from predatory, for-profit, private-sector lenders.

By removing the need to rely on debt to procure necessary goods and services, a GAI framework would also create a more secure and flexible workforce. According to Pasma and Mulvale (2009:5), one of the arguments in support of a basic income is that "[i]t would render the work force more flexible and more adaptable to structural change by partially detaching income from work." However, in addition to making the workforce

more *adaptable to* structural change, it could also provide the basis to *transform the structure* of the system. A GAI framework would eliminate precarity and protect individuals if they chose to take risks, thereby enhancing opportunities for individuals to exercise agency. Individuals would be more free to pursue careers and other activities based on their interests and beliefs rather than choosing careers based on what is most in line with mainstream needs and expectations and thus most employable. Because individuals would have increased opportunity to exercise agency against the constraints of the current system, a GAI framework could work as a mechanism to support broader social transformation by removing the need for debt as a *de facto* social safety net and subverting debt's power as a mechanism of social control.

III. ALTERNATIVE LIFESTYLES AND ECONOMIC RELATIONS

1. Background

Although structural forces pose very real challenges, there are many ways to exercise agency in the face of these forces, such as through individual choices to adopt alternative lifestyles or more collective decisions to develop alternative structures for economic exchange. Mainstream North American culture is largely characterized by consumerism, rapid consumption, and overspending, and the current economic system largely depends on this behaviour. However, people are recognizing the importance of envisioning and adopting alternatives on increasingly larger scales. Voluntary simplicity, for instance, is a lifestyle choice that some believe is starting to replace conspicuous consumption; it is defined by the free will decision to reduce consumption and remove clutter from one's life (Wu 2013:295). There are a number of social issues that appear to

be driving this trend, including environmental degradation and economic recession.[39] In addition to the reduced ability to spend, emotional motivators like fear and empathy may be influencing reduced consumption trends. Others taking up the lifestyle are motivated by ecological factors to engage in sustainable consumption, which can be understood as "a broad concept that concerns the interaction of social and ecological issues" (Wu 2013:296).

On a more collective level, this trend is evident in the growth of alternative, local economic models that generally operate on the outskirts or in the interstices of the mainstream market economy, or as complements to mainstream institutions. Examples of alternative economic models include complementary and alternative currencies, as well as fully localized, barter, and gift economies (Boyle 2012; Hallsmith and Lietaer 2011). Complementary and alternative currencies, such as time-based currencies, run independent from or in parallel to the mainstream currency, and may include an alternative monetary system and institutions, like time banks (Boyle 2012:44-5). Fully localized economies are those where all needs are met using local materials and produced within walking distance of home (Boyle 2012:42). Such models are beneficial because they are less wasteful and more sustainable than contemporary capitalist exchange, which is driven by debt-fueled over-consumption. In addition, these models encourage more meaningful relationships between community members, they keep money and wealth circulating within local communities rather than flowing out, and they can protect local communities from the volatility of the larger global capitalist system.

[39] Interestingly, material consumption patterns in the U.S. have declined significantly since the Great Recession. Measured from December 2007 to May 2011, consumption declined an estimated $175 per person per month (Lansing 2011, as cited in Wu 2013:295).

Alternative lifestyles and economic relations are small-scale examples that are compatible with elements of the degrowth perspective, which is becoming an accepted and established field of academic research. Degrowth can be understood as "an equitable downscaling of production and consumption that increases human well-being and enhances ecological conditions at the local and global level", and is based on the foundational belief that perpetual "economic growth is not sustainable and human progress without growth is possible" (Schneider, Kalls and Martinez-Alier 2010:511). To achieve sustainable and equitable economic relations, degrowth proponents describe the need for an extended period of broad degrowth eventually leading to a steady state, zero growth economy. The degrowth period would include an overall decline in Gross Domestic Product (GDP) combined with selective, necessary growth in such industries as alternative technologies and public transportation. As Ross (2013) argues, because the capitalist system relies so heavily on the availability and expansion of consumer credit to facilitate sufficient levels of growth, a true solution to indebtedness (and other ills of global capitalism) can only emerge in the context of a zero growth economy.

Degrowth would also need to be accompanied by broader institutional change such as the decentralization of democratic institutions and the re-politicization of the economy (Schneider et al. 2010:513), which would be no small accomplishment. However, concrete examples of small-scale alternative economic models could provide the rationale to underpin the legitimacy and feasibility of such a transformation. I discuss three of these concrete examples in the next section: Salt Spring Dollars as an example of an alternative currency, farmers markets and community shared agriculture as an example

of alternative economic relations, and alternative success measures as a means of identifying and measuring collective priorities.

2. Examples

A Canadian example of a successful alternative currency regime is Salt Spring Dollars, a local currency program run by a community not-for-profit organization called the Salt Spring Island Monetary Foundation (SSIMF). Interestingly, the program uses the existing system's economic and financial structures to deliver a program that subverts a foundational constituent of the mainstream financial system, namely for-profit lending. The Salt Spring Dollars program operates *within* rather than parallel to the existing mainstream economic system, unlike other local currency or exchange programs (e.g., Calgary Dollars, Local Employment Trading Systems [LETS]). Salt Spring Dollars can be purchased at any bank, select banking machines, the Chamber of Commerce, and through the SSIMF website, and are accepted at the vast majority of businesses on the island (Staples 2005). Salt Spring Dollars also directly generate a surplus[40] to be used for funding community initiatives in the form of interest-free loans for sustainable development projects, such as affordable housing or renewable energy. The SSIMF has a strict "no usury" policy, which is "fundamental to the concept of true community currency" (SSIMF, as cited in O'Hara 2009:48). As money is repaid, it becomes available to fund another project. Thus, the system has built-in environmental and social considerations. Furthermore, because they operate somewhat independently from the mainstream global economic system, they are also shielded from its crisis tendencies. In

[40] It should be noted that the SSIMF relies directly on the mainstream financial system to generate this surplus. As Salt Spring Dollars are purchased, the Canadian dollars used to purchase them are deposited in an interest-bearing savings account at a local bank. The accumulated interest is the funding source for these community initiatives (Staples 2005:11).

the wake of the 2008 financial crisis, for instance, Salt Spring Dollars were unaffected (O'Hara 2009).

Concerns about the mainstream globalized food system have led to the growth of alternative food networks in Canada and other developed countries. These concerns include food safety and quality, as well as global social, economic, and environmental impacts (Beckie, Kennedy and Whitman 2012:333). In contrast to the distant, impersonal global capitalist supply chain, farmers' markets facilitate more direct connections between producers and consumers. This encourages strengthened connections with one's community and food while creating more sustainable production relations by reducing market externalities (for example, the ecological impacts of transporting food from transnational suppliers). Furthermore, farmers' markets are often cooperative and collaborative networks within which members share equipment and knowledge (Beckie et al. 2012:335).[41] The community shared agriculture (CSA) model similarly promotes direct connections between producers and consumers, but unlike farmers' markets, the CSA model also includes a built-in feature of shared risk. Consumers essentially invest in the farm's harvest up front at the beginning of the season and then receive a share of the produce, whether the harvest is abundant or slim. This shared risk feature is thought to further strengthen community connections. In addition, this approach helps to smooth the farm's cash flow and allows farmers to focus on growing and distributing their produce during the farming season, as the marketing and selling work is completed earlier in the year (Local Harvest 2015).

[41] However, Beckie et al. (2013) point out that farmers' markets also largely rely on relationships with the private sector and government for their success. Furthermore, farmers' markets' prices are often substantially higher than supermarkets, which is a barrier for lower income households.

A common feature of Salt Spring Dollars and alternative food networks is an emphasis on local connections and thoughtful community development, as both prioritize social and ecological considerations over the systemic requirements of the mainstream economic system, such as debt-fueled overconsumption, for-profit lending, and perpetual growth. Adopting alternatives to the GDP measure of economic success is one potential mechanism through which emphasis on such considerations could be scaled up to the collective level, since measures are a way of identifying and measuring collective priorities. Alternative success measures would be centrally implemented and driven at the collective level and would measure systemic success more holistically rather than focusing solely on the economic realm. Therefore, they could potentially influence individual behaviour in terms of the decisions people make by shifting emphasis away from the economy and towards a more holistic conception of wellbeing.

Heinberg (2014:20) suggests adopting Gross National Happiness (GNH), a measure that Bhutan has experimented with since the 1970s and has promoted at the United Nations. Although it is a single number index, the GNH is based on 33 indicators in nine domains that allow it to conceptualize progress and wellbeing more holistically, moving beyond the tendency to prioritize the economic realm and allowing consideration for psychological, health, education, ecological, and other components of wellbeing. The goal of the GNH is to incentivize governments and non-government organizations (NGOs) to create policies and programmes that increase the GNH (Centre for Bhutan Studies 2015).

3. Benefits and Potential

The benefits and potential of the alternative lifestyles, economic relations, and success measures discussed above are twofold. First, they are concrete examples of successful initiatives that could promote shifts in consciousness regarding the desirability and feasibility of alternative economic structures and relations on a larger scale. Second, their fundamental structures and values promote sustainable and equitable relations that could potentially reduce or eliminate personal overindebtedness. As such, they would be a suitable component of the degrowth agenda and transition to a zero growth economy. Because the capitalist economic system and the GDP as a measure of economic success within that system both emphasize and require perpetual growth, transforming the personal debt problem requires a transformation of the system. Furthermore, because these alternative models favour community and sustainability over growth and profit, their wide-scale implementation could also address a number of other timely social issues, including ecological problems.

Adopting an alternative success measure like the GNH would encourage governments to "promote policies that lead to more sharing, more equity, more transparency, and more citizen participation in governance, since it is these sorts of things that tend to push happiness scores higher" (Heinberg 2014:20). What we choose to measure matters, and although people *choose* to measure what they believe is important, what is measured can also *influence* what people believe to be important. Moving away from measuring GDP and the growth of the economy year over year (which is unsustainable anyways) and replacing it with an alternative success measure based on a more holistic conception of wellbeing could support the transition away from our current

economic model and towards a more sustainable and equitable future model. Furthermore, by demonstrating that alternative local currencies and food networks are viable alternatives to the globalized capitalist economy, initiatives like Salt Spring Dollars, farmers' markets and CSAs can help to expose the taken-for-granted nature of mainstream economic exchange, which could in turn contribute to repoliticizing and denaturalizing the economy as well as the narratives that legitimize and perpetuate personal debt.

Through their operations, the alternatives described above also transform the nature of economic exchange, which is generally impersonal and occurs at a frenetic pace mediated by cash and credit cards in mainstream capitalist markets. By connecting producers and consumers directly, communities have the opportunity to build enduring, meaningful social connections, and to make their purchases in a more mindful way. Therefore, alternatives like these encompass a potential ideological impetus as well as practical models for the transformation of the current mainstream system to something else entirely, such as a zero growth economy following a period of planned degrowth. In addition, because they are not entirely dependent on the existing economic system, alternative economic structures could potentially act as a safety net by providing a means to meet needs outside of the mainstream economy, as opposed to relying on government for income security programs or accessing credit as a *de facto* social safety net. However, in order to garner enough public support to move forward with such transformative changes on a wide scale, more targeted and purposeful collective action needs to occur.

IV. COLLECTIVE ACTION

1. Background

Harvey (2011), McNally (2011), and Ross (2012, 2013) all agree that the way forward requires a mass struggle. Unfortunately, McNally (2011:146) points out that while there have been many movements springing up during the Great Recession, resistance has been inspiring but inadequate to affect major change. He explains that labour in the Global North has yet to recover from the neoliberal dismantling of working class solidarity and spaces of resistance, which coincided with the "new individualism" of the 1980s (McNally 2011:151). New movements in the North lack the deep roots, vision, and clarity to hold them together through challenging times, but infrastructures of dissent are in the process of being rebuilt, and McNally (2011:152) argues that we can take lessons from movements in the Global South that are defined by solidarity. For example, the Stand Up Against Exploitation movement in Guadeloupe and Martinique combined more than 50 working class groups and social movements. Ross (2013:98-9) suggests organizing around debt rather than labour, as it is a more intimately felt type of exploitation than workplace exploitation and could therefore work effectively to unify people with diverse interests. Ross and the Strike Debt movement also recognize that debtors hold a unique power based on their outstanding debts that they can leverage to transform the system (Mckee 2013:788). While one debtor's debts may be insignificant, a group of debtors acting in solidarity hold debts that are, in effect, systemically important and can be used to stand up against inequitable, imbalanced, and immoral debt relations.

According to Ross (2013) and the Strike Debt movement, a solution to the problem of personal overindebtedness must occur in two parts: the first is a debtors'

movement leading to the forgiveness and/or write-down of existing debts, and the second is the implementation of a successor economy based on principles of socially productive lending in the context of a zero growth economy. However, in order for a debtors' movement to gain enough support and momentum, a necessary precursor is the rejection of payback morality, and perhaps the implementation of an alternative morality that turns the moral critique onto lenders rather than borrowers. Strike Debt promotes flipping the debt resistance double standard, since "[a]t present, debt repudiation is the prerogative of the 1 percent. Bankers are the ones who expect to have their debts forgiven, and high-carbon industrialists … are the ones who refuse to pay their own ecological debts" (Ross 2013:232-3). Only when the moral ideology of payback morality is recognized and rejected will the notion of debt-refusal gain legitimacy in the public mind.

Ross and the Strike Debt movement have come up with a series of moral and practical arguments for debt refusal and to determine which debts should be refused. For instance, extending loans to borrowers who cannot repay is an immoral practice; debts created through fractional reserve banking is "unearned income that should not be recognized as binding"; extracting profits from the need to access debt for basic needs or to finance vital common goods (e.g., education and healthcare) should be illegal; and that it is a "moral hazard" to reward and reinforce the anti-social behaviour of bankers by repaying debts (Ross 2013:24-5). In the next section, I discuss a concrete example of a subversive action that Strike Debt organized and executed to promote the legitimacy of debt-refusal: the Rolling Jubilee.

2. Examples

Ancient societies like Babylon and Egypt held periodic debt-cancellation jubilees during which slaves were freed from debt-bondage, possessions confiscated by creditors were returned to their rightful owners, and citizens were essentially granted a clean economic slate by royal decree (Ross 2013:94). While this historical practice is a top-down means of debt *relief*, the concept has been transformed by contemporary social movements in the North and South[42] into a movement of debt *refusal* as a bottom-up act of participatory democracy. It is based on the justification that "[w]hen a government cannot protect its people from the harms inflicted by rent extractors, and when debt burdens become an existential threat to a free citizenry, then the refusal to pay back is a defensible act of civil disobedience" (Ross 2013:23).

A concrete example of collective action operationalizing and promoting the concept of debt refusal is the Rolling Jubilee, a small-scale public education project billed as a "bailout by the people, for the people" (Ross 2013:236). When lenders have "non-performing" debts on their books, they sell the delinquent loans to collectors in secondary markets "for pennies on the dollar" and then write them off as losses for taxation purposes (Ross 2013:236). The collectors buy the debts cheaply and then try to collect the full amount from debtors with the potential to reap enormous profits. Rolling Jubilee raised hundreds of thousands of dollars in donations by holding a telethon and used the donations to buy and eliminate nearly $15 million worth of debt.[43] In addition to

[42] The Jubilee South movement in the 1990s and 2000s built a strong case for the cancellation of sovereign debts imposed on the South by banks in the North. The movement resulted in the cancellation of a significant proportion of sovereign debt through the Multilateral Debt Relief Initiative, which was launched at the G8's 2005 Summit in Gleneagles (Ross 2013:46).

[43] To date, they have now raised just over $700,000 which they have used to abolish nearly $32 million worth of debt (Rolling Jubilee N.d.).

providing debt relief for a number of debtors and demonstrating that it is possible to abolish debt, the project exposed the predatory nature of the secondary debt market, "providing [debtors with] moral ammunition for confronting collectors when they make their threatening phone calls" (Ross 2013:236-7). This type of exposure could provide the basis for public acceptance of the legitimacy and morality of debt refusal.

3. Benefits and Potential

While successful examples of alternative economic relations could prompt a change in consciousness regarding the desirability and feasibility of such alternatives on a larger scale, projects like Strike Debt's Rolling Jubilee could do the same regarding the legitimacy of debt refusal. Exposing the exploitative nature of the capitalist profit-based lending system and promoting awareness of the illegitimacy of many existing debts, as Strike Debt argues, could provide the ideological impetus to dismantle payback morality. For instance, Rolling Jubilee exposed the shadowy nature of secondary markets for delinquent debts; future public education projects could highlight fractional reserve banking and the usurious interest rates and charges associated with payday loans, for example. Furthermore, centering collective action around personal debt as a unifying characteristic is a potentially effective approach to achieve solidarity in the context of fragmented working class solidarity and lack of cohesion among various interest groups.

Once debt refusal is seen as a legitimate response to the debt crisis, debt refusal as a bottom-up act of participatory democracy could potentially catalyze significant transformation to the current system. Because the perpetuation and growth of the current system relies on debt, if debtors refused to participate in exploitative debt relations any longer it could put an end to the system as it currently exists and set the stage to transition

to something new. In comparison to the other proposals outlined above, debt refusal via collective action presents the most promising opportunity for transformative change as a means to achieve an alternative system of economic and social relations (e.g., a zero growth economy) and thus achieve an *essential* rather than surface solution to personal overindebtedness. However, it also presents the most significant challenges, barriers and cautions.

V. LIMITATIONS AND BARRIERS

Having discussed the benefits and potential of each approach described in this chapter, in the next section I discuss potential barriers, cautions, and limitations based on my alternative theoretical framework. Although each approach holds a unique promise, each also has its own limitations stemming from the complex interaction of multiple structures in the current context, as well as the interplay of structure and agency.

1. Financial Sector Regulation and Income Security Frameworks

There are inherent limitations with those approaches that would be implemented within the current system without altering anything fundamental about it, such as stronger financial sector regulation and a more robust income security regime based on Guaranteed Adequate Income. These proposals are inherently limited by virtue of their reliance on the current system, regardless of how progressive, conventional, proactive, or reactive each may be. Even the most thoughtful and stringent regulations can only be partially and never entirely effective at addressing overindebtedness as a social and economic issue, insofar as they regulate the capitalist system, which allows and requires extractive lending practices and which has intrinsic contradictions that cause periodic

systemic crises. Therefore, household debt levels will continue to rise, although they may not progress as quickly or climb as high as they would without these interventions.

Furthermore, at the same time that each of these proposals softens some of the system's exploitative tendencies, it also reinforces the existing order. For instance, stronger regulations may mitigate the exploitative and crisis-prone structural components of the capitalist system, such as by placing limits on how "innovative" capitalists can be in their attempts to increase or maintain rates of profit. However, they do not remove the need for capitalist lenders to profit, which is what drives innovation and exploitation. Furthermore, financial regulations and income security frameworks do not address cultural factors like the pervasive culture of consumerism which encourages people to over-spend, or ideologies of promise-keeping which deter people from default. While a GAI framework would address financial security issues for the poor and working poor so they can meet their basic and emergency needs, it does not address the mechanisms that drive people to overspend on wants and *perceived* needs. Failing to address these important cultural factors means they will continue to encourage people to take on and maintain high levels of personal debt. Therefore, to the extent that they operate within the current system and are unable to transform cultural factors, such reforms are likely to postpone rather than eliminate future crises and soften rather than eradiate capitalist harms.

These approaches also face substantial ideological and material barriers to wide-scale implementation and success. First, stronger regulations and progressive income security frameworks run counter to free market principles. Even the minimal regulatory reforms that occurred following the 2008 financial crisis have been criticized by some for

being unnecessarily restrictive and likely to limit the profitability of the financial sector, which likely explains the mainstream preference for minimal improvements to consumer protection in combination with financial literacy education (Kobzar 2012:41). Therefore, there are barriers to implementation associated with hegemonic neoliberal ideologies and material practices that favour corporations over the people. Second, stronger regulations causing lower levels of available credit and trends towards debt deleveraging (and saving rather than spending) would likely result in economic slowdown (Paulin 2012). Therefore, although reforms like these could potentially contribute to personal debt loads that are more manageable for individuals as well as aggregate debt levels that are more favourable for systemic stability, this not a widely palatable option and could even cause widespread systemic economic problems.

2. Alternative Lifestyles, Economic Relations, and Collective Action

Alternative lifestyles and economic relations could address the systemic roots of the personal debt problem if wide-scale implementation is possible. If individuals exercise their agency and choose minimalist, debt-free lifestyles *en masse*, they may be able to improve personal and aggregate debt levels. However, they would still most likely need to purchase commodities in the market and work for a wage, thereby reproducing the structure that causes indebtedness, unless these minimalist lifestyles occurred within an alternative economic system. Critical realists caution, however, that making substantial changes to existing structures can also have unintended consequences. That is, implementing changes in an effort to solve a problem may unintentionally cause new, more severe problems or exacerbate existing ones (Sayer 1997:477). Sometimes, the removal of undesirable structures (like debt-fueled neoliberal financialized capitalism)

and the implementation of more desirable ones (such as a zero-growth economy based on socially productive lending) can cause more harm than good.

Consistent with the critical realist perspective, degrowth advocates are aware of the dangers and limitations "of big abstract ideas" that have not yet been tested in reality (Schneider et al. 2010:513). For instance, the degrowth movement could be "misappropriated for authoritarian ends and justify authoritarian solutions for the imposition of limits on the face of a crisis" (Schneider et al. 2010:513). Especially when a proposed solution involves moving from one system to another entirely different system, one must thoroughly consider and compare the powers and liabilities of both, at least in thought if there is no comparable example in the empirical world (Sayer 1997). Questions to address include, are alternative local food networks and currencies feasible for widespread adoption in the context of a world that is extensively interconnected and globalized? And how can localized economies remain connected to one another while maintaining the benefits derived from their local, sustainable, and subversive nature? The question remains of whether such examples "provide real alternatives that can be scaled up and provide the building blocks of a future degrowth society" (Schneider et al. 2010:515). Proponents therefore emphasize that degrowth is multi-dimensional concept with diverse proposals that should be debated openly and democratically for practical implementation (Schneider et al. 2010:513).

Barriers to the implementation of more transformative approaches include the hegemonic discourses that influence how the world, economy, and social problems are understood, and that work to benefit and reinforce existing power relations. In order to effectively address the personal debt problem, we must move beyond rational choice

theory and common conceptions of debt, and dismantle the structures and narratives of payback morality, both of which legitimize existing debt relations. Furthermore, the existence of debt as a *de facto* safety net impedes people from achieving collective awareness of the need for change. To the extent that the democratization of credit has allowed people to access debt to weather rough economic patches, it renders people unable to recognize the need for more meaningful policy reforms or to envision alternative systemic relations. To this end, the tactics employed by contemporary debtors' movements, like Strike Debt's Rolling Jubilee, are indispensible in promoting public awareness and education.

VI. CONCLUSION

Through this analysis, I have drawn on a broad range of existing work to illustrate the complex, intricate, and pervasive nature of the personal debt problem. Consistent with Danermark et al.'s (2001) critical methodological pluralism, I have moved between the abstract and the concrete and used a combination of extensive and intensive approaches, starting with an extensive description of the problem's depth and breadth. By articulating an alternative theoretical framework to understand the problem in chapter two at the level of the abstract, I showed how the mainstream conception of the problem is inadequate. Through a critical discourse analysis of mainstream financial literacy policy documents in chapter three, I demonstrated how the inadequate rational choice perspective is the conceptualization underpinning the financial literacy literature at the level of the concrete, and argued that this popular approach cannot be successful in addressing the personal debt problem because it is based on an inadequate understanding of the problem. Lastly, in the present chapter, I discussed a continuum of alternative responses to the

personal debt problem as well as their potential benefits and limitations. In so doing, I have presented a much more complex, messy, and adequate understanding of the personal debt problem that I hope will be useful to inform concrete solutions in practice.

While the current system cannot be transformed in a day, none of the proposed solutions outlined in this thesis should be rejected entirely, and none should be lauded as a panacea. Rather, each should be used as a tool within a multifaceted framework based on its usefulness in the applicable context. This could even include, perhaps, financial literacy education. Furthermore, while equitable and non-exploitative economic relations are a worthy goal, the desire for systemic change should not negate the benefits of progressive regulatory and policy reforms that could soften systemic harms in the meantime. Though seemingly paradoxical, if we want truly transformative change in a hurry, the fastest way to achieve it may be to follow the mainstream non-solutions and hegemonic ideologies that reinforce the system driving the debt problem. Doing so may lead to a meltdown in the economic system, ushering a rapid transformation, but one accompanied by prolonged human and environmental suffering. The debt crisis is unique in that it poses an opportunity for transformation towards a more equitable and sustainable social order, but proposed solutions can also have unintended consequences. As we continue in our collective attempts to solve the debt problem, we must move forward in a way that is both multidimensional and cautious.

As it turns out, there is an essential role for financial literacy in a holistic framework to address debt, but this is not the same financial literacy promoted by the OECD and the Canadian Task Force. Arthur (2012) promotes an alternative *critical* financial literacy that would move away from making consumers disproportionately

responsible for their own protection, and would involve the understanding that individual consumers cannot solve the personal debt problem – individually or systemically – through adequate knowledge and "responsible" choices. Rather than teaching individuals to simply make the "right" choices, critical financial literacy would promote the creation of a "critical citizenry" rather than a "consumer citizenry" that understands the political forces that shape available choices, and who benefits from those choices (Arthur 2012:107).

Critical financial literacy could also lead to the denaturalization of the capitalist economy and, by extension, a critical citizenry who would be able to envision and understand the need for alternative economic relations and political orders (Arthur 2012:108). Such critical financial literacy education could break down the ideological barriers posed by rational choice theory and payback morality and allow us to use the present crisis as an opportunity to fundamentally question our collective priorities and the prevailing economic order. Finally, critical financial literacy is what will allow us to negotiate among these various, diverse proposals as we attempt to construct a solution to the debt problem, by allowing us to recognize the benefits and limitations of each and how they can complement one another. It is also what will allow us to recognize that there is no single or "right" way to solve personal overindebtedness or any other vital social problem of our time.

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