In Defense of Economic Disobedience

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The good news is that overall US household debt and debt service as percentage of income have decreased from their sky-high levels just before the financial crash. Debt service, which reached more than 14 percent of after-tax income by the end of 2007, had fallen to 10.5 percent by April 2013.[1] Much of the deleveraging was due to low interest rates and to a reduction in mortgage debt, though it is not clear how much of the decrease came from banks writing off delinquent loans rather than from faithful repayment. Yet in the third quarter of 2013, mortgage debt saw a rise, by $56 billion, heralding a reversal of this pattern.[2] Auto loans are also on the increase, and the steady ascent of student debt, which never faltered during the recession, is approaching $1.3 trillion.

If these numbers are evidence of an upswing, then the bottom of the debt deflation trend turned out to be not very shallow at all. Once people are persuaded it is safe to start borrowing again, then interest rates will be hiked—an invitation for the banks to stop hoarding their cash reserves and embark on a new season of predatory lending. This invitation to the banks is backed by the proven willingness of governments to bail them out even in the face of high rates of personal default and mass immiseration among the citizenry. Such assurances that the banks will always be made whole are critical to any creditor's calculation that higher levels of debt service are sustainable. The gap between the deflated bottom and projected, or aspirational, levels of rent

1 Jeff Madrick, "A Bit of Good News," *Harper's*, April 2013, 6–7.

2 Federal Reserve Bank of New York, "New York Fed Report Shows Household Debt Rises in Third Quarter" (2013), http://www.newyorkfed.org/newsevents/news/research/2013/rp131114.html.

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extraction is now large enough for them to jump back into the lending game, an outcome that no amount of quantitative easing has been able to bring about.

Equally serviceable is the gathering consensus among economists—even those critical of neoliberalism—that the so-called "debt overhang" from the 2008 crash has largely been resolved and that it is not only safe to begin borrowing again but also necessary if GDP-driven growth is to get back to business as usual. This is not particularly good analysis nor is it good advice. Debt overhang is one of those dodgy concepts economists use to rationalize an otherwise unsustainable or high-risk condition. Aggregate household debt, after all, is still at a staggering $11.28 trillion. As for GDP-driven growth, all the evidence shows that this kind of growth is a recipe for ecological collapse.

Today we live in the kind of society—I call it a creditocracy—where pretty much everybody is up to their necks in debt that can never be repaid, but nor is it supposed to be. It is important to understand that, in a creditocracy, lenders do not want us to pay off our debts entirely, for the same reason that credit card issuers do not want us to clear our balance at the end of every month. Customers who do this diligently are known in the industry as "deadbeats," because they appear to get credit for free. The ideal citizens in a creditocracy are the revolvers who cannot make ends meet and who pay the minimum along with merchant fees and penalties every month, rolling over their credit from month to month. With average US household credit card debt at $15,185, and with APRs currently around 15 percent, credit card issuers are effectively collecting $2,277 annually from households with unpaid balances (in finance charges and penalty fees, and a much greater amount if the interest compounds daily as most now does).[3]

Creditors' profits come from extending our debt service as long as they possibly can. After all, if we pay down our debts, we are no longer serviceable to the banks. The goal is to keep us on the hook until we die, and even beyond the grave in the case of student debts that are cosigned by parents or grandparents. Not surprisingly, there has been a marked generational shift in the debt burden toward the elderly. In the postwar model of life-cycle lending, it was more or less assumed that middle-class borrowers would earn the right, in their senior years, to live debt free, and it was a source of pride among the elderly, especially debt-abhorrent Depression babies, to have never paid a finance fee. That is no longer the case, and not just because debt-tolerant boomers have entered the ranks of the retired. Patterns of capitalist profit have shifted and are much more tied to lifelong financial extraction. As financialization penetrates every corner of the household economy, the say-so of the creditor class has become common sense, normalizing ever higher levels and more various kinds of debt service as a custom of conduct.

As for the beneficiaries, the tipping point for a creditocracy occurs when "economic rents"—from debt leveraging, capital gains, manipulation of paper claims through derivatives, and other forms of financial engineering—are no longer merely a supplementary source of income for the creditor class but have become the most reliable and effective instrument for the amassing of wealth and influence. In that respect, a full-blown creditocracy may be considered distinct from earlier forms of monopoly capitalism in which profits from production dominated. In a rampant market civilization, vital social goods are converted into transactional commodities. A creditocracy emerges when the cost of accessing these goods, no matter how staple, has to be debt financed. For most people, that means borrowing simply to get by. Indebtedness becomes the

3 *American Household Credit Card Debt Statistics* (2013), http://www.nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/.

precondition not just for material improvements in the quality of life but for the basic requirements of life. The creditors' goal is to put tollbooths on every possible asset and income stream, ensuring a steady flow of interest from each. The more advanced level of extraction requires borrowers to seek out fresh sources of credit to service existing debt. This technique was institutionalized most visibly in IMF lending to developing countries caught in the debt trap of the 1970s and 1980s. To this day, debtor nations are forced to borrow from one loan installment to another simply to service interest repayments on their existing debts. There is no expectation that the principal will ever be paid down, but the pattern of uninterrupted receipts is highly profitable in itself.

For the working poor, this permanent indebtedness has been a familiar arrangement for much longer, and the past legacy of their debt bondage (in the lineage that runs from feudalism, indenture, and slavery to sharecropping, company scrip, and loan-sharking) is alive and well today on the subprime landscape of fringe finance, where payday lenders and check cashers and other poverty banks all thrive. But the bonds generated by household debt have spread upward in recent decades and now affect the majority of the population, tethering two generations of the college educated. That is why the education debt crisis in particular has attracted more than its share of attention. Average debt on graduation is $29,400, and nearly one-third of borrowers in repayment are in default. The nation's economic managers are understandably flummoxed by the prospect of graduating a middle class that may never be able to afford to buy a house, raise children, or make the kind of purchases that sustain a consumer society.

The student loan burden is not just an economic problem but also a relationship of power. Beginning with Ronald Reagan's declaration of war on Berkeley's campus activists—"the state should not subsidize intellectual curiosity"—the strategy of hiking tuition fees has proven very effective in dampening the ardor of student protesters.[4] Over time, the state's role in broadening access to federal loans (rather than access to the right to education) and pushing up the debt burden has helped to stifle the optional political imagination of students. Protest is no longer a rite of passage on campus as it was several decades ago. Many students are now compelled to seek out low-paying jobs to stay in college and stave off further debt; they are encouraged to think of their degrees as transactions in which their future wages have been traded; and they are increasingly directed toward fields of study that provide "value" through the earning potential to repay their loans. These are not conditions under which an agile critical mind is likely to be cultivated, but they are perfectly serviceable to elites who do not want an educated and active, freethinking citizenry on their hands.

Similar arguments have been made about the longstanding adoption of homeownership as a national policy. Beginning with the efforts of Herbert Hoover's Better Homes movement of the 1920s, the promotion of homeownership was urged as a hedge against the socialist threat. Indeed, access to credit would be a staple of the great public relations war against socialism for the next several decades, initially to ward off its influence in the United States and then in the worldwide contest with the Soviet bloc from the late 1940s onward. For those who saw the New Deal itself as a communist plot, the Federal Housing Administration's (FHA) innovative use of private capital (no public monies were used to back the FHA loans) was a reassuring move. Indeed, one

[4] Aaron Bady and Mike Konczal, "From Master Plan to No Plan: The Slow Death of Public Higher Education," *Dissent* 59, no. 4 (Fall 2012): 10–16.

future FHA commissioner described it as "the last hope of private enterprise. The alternative was socialization of the housing industry."[5]

Even so, the fear of a damaged credit score or threat of a foreclosure helped to reinforce the rigid status quo that was so distinctive of the Cold War culture of conformity. Debt service was the key to enforcing social norms, and so the mortgaged home became the cornerstone of capitalist ideology in this period. As William Levitt, the master builder of mass suburban homes, so concisely put it, "No man who owns his own house and lot can be a communist."[6] Yet he was simply expressing an opinion that, for twenty years, had guided a generation of urban planners, like John Nolen, and housing reformers, like Lawrence Veiller, in their bid to foster "a conservative point of view in the working man."[7]

Even those without personal loans are debtors, because public debts, especially municipal obligations, have been structured in such a way that the service costs to Wall Street are now routinely passed on to all of us in the form of austerity policies. Increasingly cut off from federal aid, starved of revenue due to anti-tax fiscal conservatism, and pressured by the recession's impact to increase social service spending to newly vulnerable populations, municipal and state governments struggling to balance their budgets became hostage to Wall Street's ratings agencies in their desperate search for credit.[8] In turn, Wall Street trained its ravenous eye on pools of public money—state and city pensions, along with the multitrillion-dollar municipal bonds industry. Private equity funds, like Mitt Romney's Bain Capital, perfected the art of targeting companies that were ripe for liquidation and restructuring for leveraged buyouts; the firms were loaded down with debt and ruthlessly used as vehicles for extracting finance fees and interest. Very soon, the same predatory formula was being applied to stressed local governments looking for high-risk/high-yield investments to make up for stock market losses sustained by their pension funds.[9]

Speculation around public pension liabilities also lies at the heart of the urban fiscal crisis that has pushed many cities close to the point of default. In the case of Detroit, the largest US city to ever file for bankruptcy, in 2013, public employees were being asked to forgo a large chunk of their pensions so that creditors like UBS and Bank of America could get repaid for derivatives transactions that had already returned handsome profits. For local governments that want to get out of pension contracts, the extreme treatment of Detroit is an obvious template to follow. Others, desperate to stave off a Detroit-style default, are encouraged to open new lines of credit to make their interest payments, ensuring that an ever larger portion of their public revenue is captured by Wall Street debt service. The net outcome is that more and more cities (and states) will be converted into revolving customers, the preferred clients of credit card issuers, who never clear their monthly balance and who pay dearly for their continued access to credit that rolls over.

Managing the lifelong burden of debt service is now an existential condition for the majority, but what about its impact on citizenship? How can a democracy survive when it is on the road

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5 Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton, NJ: Princeton University Press, 2011), 53.

6 Kenneth Jackson, *Crabgrass Nation: The Suburbanization of the United States* (New York: Oxford University Press, 1958), 231.

7 Dolores Hayden, *Redesigning the American Dream: The Future of Housing, Work, and Family Life* (New York: Norton, 2002), 49.

8 Ann Larson, "Cities in the Red: Austerity Hits America," *Dissent*, November 16, 2012, http://www.dissentmagazine.org/online_articles/cities-in-the-red-austerity-hits-america.

9 Matt Taibbi, "Looting the Pension Funds," *Rolling Stone*, December 19, 2013.

to debt serfdom? The right of creditors to be made whole now routinely overrides the responsibility of elected national representatives to carry out the popular will, resulting in "failed democracies" all over the world. Everywhere we look, government officials are still being pressured to "save the banks" or pass on the costs of bankers' speculative investments to the most vulnerable populations. This is not just an economic arrangement, but it is also a relationship of power, with devastating impact upon popular sovereignty. For example, when elected officials in Greece and Italy stood in the way of the European Commission, European Central Bank, and International Monetary Fund, they were replaced by Troika-approved technocrats, Lucas Papademos in Greece and Mario Monti in Italy, who could be relied on to ensure the smooth repayment of external debts. The unelected, apolitical status of these two finance industry proxies underlined the reality that the democratic process had to be suspended so that the highly unpopular policies—No Bondholder Left Behind—that favored foreign creditors could prevail. Yet even the placid Monti spoke out against what he called the emergence of "creditocracy" in Europe, referring specifically to how sovereign governance was being circumvented by the priority given to foreign bondholders, as represented through the big German, French, Swiss, and Dutch banks.

The historical record shows that a society unable to check the power of the creditor class will quickly see the onset of debt bondage, even debt slavery. Are we heading down this path, once again? Many are saying as much when they point to the revival of debtors' prisons in many US states, or when they speak of student debt as a form of indenture and compare banking practices, on Wall Street as well as on Loan Alley, to the most extreme forms of usury. So, too, the revival of interest in a debt jubilee, not only in developing countries but here in the Global North, is evocative of macrosolutions hatched in the ancient world by rulers who were so desperate to restore the balance of popular power in their favor that they abolished all existing debts, freed debt slaves, and returned land to original owners. Following in the ancient tradition of the jubilee, activists in the Jubilee South movement in the 1990s and 2000s have had some success in arguing the case for repudiating the external debts of developing countries caught in the debt trap set by the IMF and World Bank.[10]

The conditions that created that debt trap have spread to the advanced economies and are now foreclosing the future of populations that were once on the "good" side of the International Division of Credit. The time is surely ripe for a debtors movement to use the same kinds of moral and legal arguments to bring relief to household debtors in the North, especially for those debts taken on simply to gain access to basic social goods like education, health care, and public infrastructure. Governments have had five years to deliver any kind of household debt relief, and they have shown that they cannot do so. In the debt resisters movement in which I have been active (through the Strike Debt, the Rolling Jubilee, and the Occupy Student Debt Campaign), we argue that people will have to take relief for themselves, by any means necessary, but mostly through forms of economic disobedience.

Every other day brings us fresh headlines about malfeasance, fraud, and continued predatory behavior on the part of the finance industry. Morally speaking, banks are the most depraved and derelict members of our society. And yet they continue to rely upon heavy-duty moralism to enforce debtors' obligations. What is an appropriate response to this conduct? Here are some

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10 Eric Toussaint and Damien Millet, *Debt, the IMF, and the World Bank: Sixty Questions, Sixty Answers* (New York: Monthly Review Press, 2010).

arguments to justify repudiating debts as a form of economic disobedience. Appealing to moral principles, they are more fully fleshed out in my book *Creditocracy and the Case for Debt Refusal.*[11]

- Loans that either benefit the creditor only or inflict social and environmental damage on individuals, families, and communities should be renegotiated to compensate for harms.
- Lending to borrowers who cannot repay is unscrupulous, and so the collection of such debts should not be honored. Making loans that clearly can never be repaid in full is a more delinquent act than being unable to pay.
- The banks, and their beneficiaries, are awash in bonuses, profits, and dividends and have done very well; they have been paid enough already and do not need to be additionally reimbursed. Since the creditor class produces phony wealth, fake growth, and thus no lasting prosperity to society as a whole, it deserves nothing from us in return.
- The credit was not theirs to begin with—most of it was obtained through the dubious power of money creation, thanks to fractional reserve banking and the "magic" of derivatives. The right to claim unearned income from debts created so easily should not be recognized as binding.
- Even if household debts were not intentionally imposed as political constraints, they unavoidably stifle our capacity to think freely, act conscientiously, and fulfill our democratic responsibilities. Economic disobedience is justified as a protective deed on behalf of democracy. Indeed, asserting the moral right to repudiate debt may be the only way of rebuilding popular democracy.
- Extracting long-term profits from our short-term need to access subsistence resources or vital common goods like education, health care, and public infrastructure is usurious, antisocial conduct, to be condemned (or outlawed) and not indemnified.
- Each act of debt service should be regarded as a nonproductive addition to the banks' balance sheets and a subtraction from the "real" economy, which creates jobs, adequately funds social spending, and sustains the well-being of communities.
- Obliging debtors to forfeit future income is a form of wage theft, and if the debts were incurred simply to prepare ourselves, in mind and body, for employment, they should be resisted. This applies especially to education debt.
- Given the fraud and deceit practiced by bankers, and the likelihood that they will not refrain from such antisocial conduct in the future, it would be morally hazardous of us to reward them any further. The finance industry relies on moralism to enforce repayment, but who is the real "delinquent"? It is more moral to deny them than to pay them back.

The foregoing list is far from exhaustive and I invite you to add to it. The goal is to determine which of our debts should be honored and which should not. High levels of indebtedness are typically seen as a drag on the economy, but the costs to democracy are much greater. What

[11] Andrew Ross, *Creditocracy and the Case for Debt Refusal* (New York: OR Books, 2014).

share of responsibility lies with Wall Street or with a government that is so beholden to bankers that it cannot protect, or provide relief to, its citizenry? Figuring out which debts we can legitimately refuse may turn out to be the only way of salvaging popular democracy. The titans of the finance industry will pronounce any talk of economic disobedience to be thoroughly unethical, but perhaps they are the last people to be preaching about morality. A