

Citation for the published version:

Dagdeviren, H., Balasuriya, J., Luz, S., Malik, M., & Shah, S. (2019).
Financialisation, Welfare Retrenchment and Subsistence Debt in Britain. *New
Political Economy*. DOI: 10.1080/13563467.2019.1570102

Link to the final published version available at the publisher:

This is an Accepted Manuscript of an article published by Taylor & Francis Group in
New Political Economy. Published on 04/02/2019, available online:

<https://doi.org/10.1080/13563467.2019.1570102>

© 2019 Informa UK Limited, trading as Taylor & Francis Group

General rights

Copyright© and Moral Rights for the publications made accessible on this site are retained by the
individual authors and/or other copyright owners.

Please check the manuscript for details of any other licences that may have been applied and it is a
condition of accessing publications that users recognise and abide by the legal requirements
associated with these rights. You may not engage in further distribution of the material for any
profitmaking activities or any commercial gain. You may freely distribute both the url
(<http://uhra.herts.ac.uk/>) and the content of this paper for research or private study, educational, or
not-for-profit purposes without prior permission or charge.

Take down policy

If you believe that this document breaches copyright please contact us providing details, any such
items will be temporarily removed from the repository pending investigation.

Enquiries

Please contact University of Hertfordshire Research & Scholarly Communications for any enquiries at
rsc@herts.ac.uk

FINANCIALISATION, WELFARE RETRENCHMENT AND SUBSISTENCE DEBT IN BRITAIN

AUTHORS

Hulya DAGDEVIREN* (Corresponding Author) - h.dagdeviren@herts.ac.uk

Jiayi BALASURIYA* - j.balasuriya@herts.ac.uk

Sheila LUZ* - s.p.luz@herts.ac.uk

Ali MALIK* - m.a.1.malik@herts.ac.uk

Haider SHAH* - s.h.a.shah@herts.ac.uk

(*) University of Hertfordshire, College Lane, Hatfield AL10 9AB

Acknowledgments:

The authors are thankful to the key informants from Citizens Advice, Christians Against Poverty, Money Advice, StepChange and Toynbee Hall for taking part in interviews and/or focus group discussions. Special thanks to Citizens Advice in Barking and Dagenham for helping with the recruitment of participants. Further credit goes to Matthew Donoghue, who helped with some interviews reported here. We are grateful to an anonymous referee for constructive feedback which improved our discussion significantly. Copy-editing assistance by Mick Brookes and John Hill is also greatly appreciated. Needless to say, the responsibility for any errors in the paper lies entirely with us.

Part of this research has benefited from funding received under the European Union Seventh Framework Programme, FP7 – SSH-2013-2 Call 5.1.1 ‘Citizens’ Resilience in Times of Crisis’, Grant Agreement No 613245 RESCuE – ‘Patterns of Resilience during Socioeconomic Crises among Households in Europe’.

Abstract: This paper investigates the dynamics of low income household (LIH) indebtedness under austerity in Britain. Building on a range of political economy studies on the role of the state in the process of financialisation, the paper discusses the transition in the nature of LIH indebtedness in connection to the recent welfare retrenchment. The analysis of survey data and semi-structured interviews establishes the fact that LIHs experienced the greatest growth in unsecured debt to income ratio under austerity. More importantly, unlike the pre-crisis period when LIHs’ debt reflected a desire ‘to keep-up with the Joneses’, post crisis, a different form of indebtedness has emerged. There has been a notable rise in debt for essential needs such as rent, food and utility services. Liabilities are not only owed to banks and fringe providers (payday lenders, money shops, etc.) but also to non-financial companies and local authorities which have become *de facto* creditors. The evidence in this paper shows that these changes are directly related to the austerity measures, especially, to the cuts in welfare budgets and the intensified use of ‘disciplinary techniques’ in the form of sanctions and administrative / legal enforcement of debt collection by public sector entities.

Key Words: financialisation, austerity, Great Recession, unsecured debt, essential needs, low income households, welfare state, Britain

1. Introduction

Debt has been an important aspect of life for low income households (LIHs) after financial liberalisation in the 1980s. This is reflected by the extensively discussed role of subprime lending in the formation of financial instability. A decade after the 2008 crisis, high indebtedness continues to be a serious issue amongst LIHs in Britain as reflected by the reports from various public organisations (NAO 2018, IFS 2018, FCA 2014). While much of the literature continues to focus on the growth of household debt prior to the 2008 financial crisis, this paper aims to investigate the dynamics of indebtedness in the aftermath of the crisis.

Political economy studies on financialisation are of particular relevance to the analysis in this paper as they have successfully unpacked the multiple dimensions of growing household debt amongst low income groups before the 2008 crisis. A prolific element of this literature has focused on the transformation in the operation of markets and firms with corporate management, prioritising shareholder value and/or rent extraction through non-productive activities (Froud et al 2000, Lazonic and O'Sullivan 2000, Boyer 2000, Lapavistas 2009, Treganna 2009, Dymski 2010, Stockhammer 2015). Another element of the literature has highlighted the change in the role of the state, the politics of distribution and the question of rising household debt in the pre-crisis period (Barba and Pivetti 2008, Rajan 2010, Wisman 2013).

The influence of the state in the process of financialisation and the growth of low income household indebtedness is central to the analysis in this paper. From a theoretical point of view, the paper draws on political economy literature (e.g. Crouch 2009, Lazzarato 2013, Soederberg 2014) that explains the role of the state in the production and reproduction of low income indebtedness and cultural economy literature on governmentality that explains the processes through which such outcomes are maintained (Langley 2008, Aitken 2010, Lazzarato 2013). Building on these studies, we underscore two sets of transformations. One is the change in the role of the state in moderating capital-labour conflict (Crouch 2009, Lazzarato 2013). The other is related to how states have facilitated the penetration of finance to the poorer sections of society through so-called 'financial inclusion' policies (Aitken 2015, 2017) and the gradual dismantling of social protection systems (Soederberg 2013, 2014). We emphasise that the processes in which these changes and the increasing use of debt by the poor are legitimised, normalised and internalised involve cultural modifications as well as a range of disciplinary measures (Aitken 2010, Langley 2008, Lazzarato 2011, Marron 2012).

Extending this analysis to post crisis indebtedness amongst LIHs in this paper, we argue that austerity measures, especially, the cuts in welfare and local government budgets, accompanied by a range of disciplinary measures, have pushed the very poor into various forms of debt by severely limiting their means of subsistence. Empirical analysis in the paper is based on two sets of data: a) statistical data on household debt from UK household surveys and debt advice charities, b) primary data obtained through semi-structured interviews with highly indebted LIHs and key informants from debt advice charities. The findings show that LIHs experienced the greatest growth of indebtedness with respect to unsecured credit during austerity. More importantly, unlike the pre-crisis period when debt was seen as a way of accumulating wealth or 'keeping up with the Joneses' (Carr and Jayadev, 2014), post crisis indebtedness amongst LIHs has been increasingly accounted for by essential needs such as food,

shelter and key services (e.g. utilities). In contrast to what is usually presumed, the creditors are not only banks, payday lenders or pawn shops but also local authorities (LAs) as well as private companies. Our interviews reveal that further retrenchment of the welfare state has significantly contributed to the indebtedness of LIHs through the implementation of the cap on benefits, the closure of the Social Fund, the aggressive use of sanctions and debt collection and enforcement actions which severely limit the means of survival for the poor and force them into debt for some of their most basic needs. Further disintegration of the welfare system in this way has created a new risk (of subsistence) for unemployed and unable (or inactive) individuals.

The rest of the paper is divided into three sections. Section 2 presents an overview of the relevant literature on the relationship between the retrenchment of the welfare state and the use of debt by LIHs. This is followed by Section 3 which provides evidence on the relationship between high indebtedness and welfare austerity through data analysis and discussion of the narratives that emerged from semi-structured interviews. The final section summarises key findings and discusses these on the basis of the relevant theoretical perspectives.

2. Unpacking indebtedness on low incomes: financialisation and the state

While mainstream studies explain household debt as a means of utility maximisation or on the basis of behavioural factors¹ an alternative literature, inspired by a range of political economy perspectives, has explained the contemporary dynamics of household debt on the basis of theories of financialisation. Whether it is seen as a regime of accumulation² or increasing shareholder value³ (see van der Zwan 2014 for an excellent review), financialisation reflected the breakdown of post Fordist capital-labour settlement (Boyer 2005) and has had negative distributive consequences. These included the growth of the financial sector and its profitability (Lapavitsas 2009), stagnant real wages, shrinking welfare state (Barba and Pivetti 2008) and increasing reliance of middle and low income classes on debt. Indeed, it has been shown in the US that the leverage rate (debt to income ratio) grew faster for lower income households during 1999-2009 (Carr and Jayadev 2015).

The role of the state in financialisation has been discussed in the extant literature with reference to a couple of transformations. *The first transformation* is related to state interventions for moderating capital-labour conflict and preventing various forms of instability. In the post WWII period until the 1970s, this conflict was addressed through Keynesian or neo-corporatist policies and the advent of the welfare state. In the neo-liberal era, however, the moderation of the capitalist contradiction involved the extension of mass credit to the middle and low income groups. In this new system of what Crouch (2009) called as 'privatised Keynesianism', 'instead of governments taking on debt to stimulate the economy, individuals did so' (p.390).

The processes through which financialisation (and debt) penetrated and pervaded the everyday lives of people in the neo-liberal era have been well explained by cultural political economy scholars who drew upon Foucault's (2007) work on 'governmentality' as an ensemble of techniques '...to govern people and their conduct'. In this view, individual subjectivities have been formatted through institutions such as the media, schools, the welfare system and social policy in a process of 'self-cultivation', involving techniques of standardisation, internalisation, normalisation, disciplining, etc.

(Lazzarato 2011). At critical transitional times, existing subjectivities are 'reformatted' in alignment with changing power regimes and governmentalities.

The neo-liberal governmentality with respect to the greater use of finance by an increasing proportion of population has been linked to the reformatting of existing 'cultures of self' and subjectivities, for example, about social identity (worker vs entrepreneur), risks and responsibility. Financial activities such as credit card balance transfers, debt consolidation, refinancing and equity withdrawal for reduced interest and/or fee payments have become part and parcel of everyday lives as non-conformance would imply 'disciplinary measures' such as higher fees and interest payments as well as deteriorating credit rating, further contributing to self-disciplining (Langley 2008).

'I suggest that the making of financial subjects and financial self-disciplines more broadly plays on freedom and security as central features of (neo)liberal governmentality...prudence and thrift are displaced by new moral and calculative self-disciplines of responsibly and entrepreneurially meeting, managing and manipulating ever-increasing outstanding obligations' (Langley, 2008, p.135)

The second transformation is related to the role of the state in facilitating the penetration of finance to wider segments of society, especially the low income classes. One of the distinct processes in this respect has been states' pursuit of financial deregulation and 'financial inclusion' policies, leading to the proliferation of 'variegated' credit providers (mainstream and low/high cost alternative credit institutions), serving a range of customers with different characteristics and needs (Stegman 2007, Stenning et al 2010, Coppock 2013, Appleyard et al 2016, Rowlingson et al 2016). The formalisation and regulation of fringe finance (e.g. payday lenders, money and pawn shops), for example, legitimised charging higher interest to those who are excluded from mainstream finance while supposedly equipping them with a calculative capacity (Aitken 2010). As such, formalisation has operated like a 'dividing device' as in the Foucauldian view that qualifies or disqualifies people as (un)fit and (im)proper members of the society. Fringe finance, rather than indicating marginality or insignificance, has been a particular form of 'financial power and practice, involving pursuit of profit at the edges' (Aitken 2015). Hence, the so called 'democratisation of finance' has partly become a process in which greater rents have been squeezed by the financial industry from every corner of society (Erturk et al 2007, Montgomerie and Williams 2009, Aitken 2017).

The other process through which the state expedited the spread of financial transactions amongst the low income groups has been the shift from collective to individualised systems of protection against risks. Rather than a tax-funded welfare system, providing social housing, health protection, etc. individuals are left to their own devices to insure themselves against potential risks. On the one hand, home ownership has been promoted as a mechanism for an asset-based welfare system in which individuals took greater responsibility for their own financial future (Finlayson 2009, Dowling 2017, Montgomerie and Budenbender 2015). On the other hand, the retreat of the welfare state (involving retrenchment of funds, conditional access to welfare benefits, punitive measures in cases of non-conformance) (Finlayson 2009) in an environment of low-pay no-pay cycle in the labour market (Shildrick, et al. 2012) opened up greater space for finance in the society.

A range of studies in the political economy literature examined the links between rising debt and downsized welfare systems. For example, using Marxist political economy and emphasising the growth of secondary forms of exploitation (taking place outside labour/wage relations) under financialised accumulation regimes, Soederberg (2013, 2014) argued that the retrenchment of welfare state has created 'a system of debtfare' in which the 'surplus labour' (including unemployed and underemployed) resort to high-cost finance as a result of inadequate welfare provision:

'...the debtfare state fills, in part, the role of the social welfare system by providing individualised, market-based forms of subsistence ... [by] extension of credit cards to the surplus population' (p. 499).

As mentioned previously, a particular element of the increasing penetration of finance to formerly unbanked or excluded populations has been due to the growth of fringe finance companies such as pawnshops, payday and doorstep lenders giving credit to the low income groups who are excluded from the mainstream markets (Aitken 2017, Stegman 2007, Coppock 2013, Appleyard et al 2016). The rise of fringe finance has been directly related to the retreat of the welfare state as argued by Marston and Shevellar (2013).

'...it is too easy to simply blame consumer culture...there are deeper, structural reasons for the rise in payday lending in countries such as Australia, the UK, Canada and the US, not least of which is a pressure for a smaller social state...In effect, inadequate wages, 'bureaucratic disempowerment', in the form of active deterrence from seeking state assistance, and harsh financial sanctions associated with welfare-to-work policies for those on income support encourage a greater reliance on the fringe economy.' (pp. 162-164)

Furthermore, several points highlighted by Lazzarato (2011, 2013) are particularly relevant for the developments after the 2008 crisis and the focus of discussion in this paper. First, despite the continuation in capitalist relations, discontinuities occur in power regimes, as reflected by the shifts from liberalism to ordoliberalism or neo-liberalism. Changes in power regimes reflect the continuing alliance between the state and capital and varieties of governmentality involving different roles for the state, capital and a host of institutions in different times and geographies (2013, p.207). Post crisis, while it is difficult to point to a complete overhaul of the existing power regime, notable revisions are taking place in defiance of expectations for states to moderate capital-labour conflict. This is reflected, for example, by the changing rhetoric and discourse, for example, from 'no government intervention' to the bailout of banks or the authoritarian turn in the USA and other countries. At a more local level in Britain, the aggressive disciplinary turn in the provision of welfare benefits, as will be discussed in the next section, is part and parcel of the same trend. Second, the promises of responsabilisation (e.g. leisure, pleasure, security) through entrepreneurial risk-taking (aiming deproletarianisation), home ownership, 'working class' share-ownership, welfare state transfers, etc, which Lazzarato (2011) links with ordoliberalism, are argued to have been further eroded under post crisis neoliberal governmentality (p. 93), notably through the prolonged austerity regime extending over a decade. Finally, debt as an infinite/unpayable obligation, unique to the sphere of finance is increasingly extended to a wider range of social relations, including one's debt to welfare state and society.

'Welfare state policies are no longer solely disciplinary but based on continuous assessment of prospects for 'repayment' not in money but through debtors' constant efforts to maximise employability' (Lazzarato 2011, p.135)

This paper draws on the ideas presented above and contributes to the political economy literature on the relationship between debt and downsizing of the welfare state through a focus on LIH indebtedness under austerity in Britain. The highlights of our contribution can be summarised in the following way. First, the paper provides a distinct portrayal of low income indebtedness. It shows that post crisis, a new form of indebtedness amongst LIHs emerged. LIHs no longer enter debt solely for the acquisition of assets (e.g. housing) or maintaining a certain lifestyle – characterisation that dominated the analyses of financialisation so far. Instead, the data here shows that after the crisis and under austerity, low income households, especially the poorest, have found themselves borrowing or building up arrears for essential necessities. This is not only a continuation but a different form of financialisation of everyday lives, reflecting its further expansion in terms of the uses of debt and the populations affected. Second, the analysis uncovers the direct role of the state in the expansion and reproduction of LIH indebtedness through austerity, akin to the discussion presented by Soederberg (2013, 2014), Lazzarato (2011) and Crouch (2009) in different contexts. No other period of financialisation provides such forceful evidence of the direct contribution by the state to the indebtedness of the poorest sections of the society at a time when it has used rescue operations and debt relief measures for financial corporations. Third, the paper identifies two particular channels through which the state has directly contributed to LIH indebtedness. One is through top-down cuts in the welfare and social policy budgets of central and local government departments, which have limited the means of survival for those who partly or wholly depend on benefits and forced them into debt. The other is through significant revisions to the techniques of governmentality which other scholars have discussed in relation to the pre-crisis period (Langley 2008, Lazzarato 2011, Aitken 2010). These revisions are affecting individual subjectivities and social culture through negative moralisation of claiming welfare benefits as well as intensified use of disciplinary measures such as sanctions and enforcement of debt collections.

3. Low income household indebtedness for essential needs under austerity in Britain

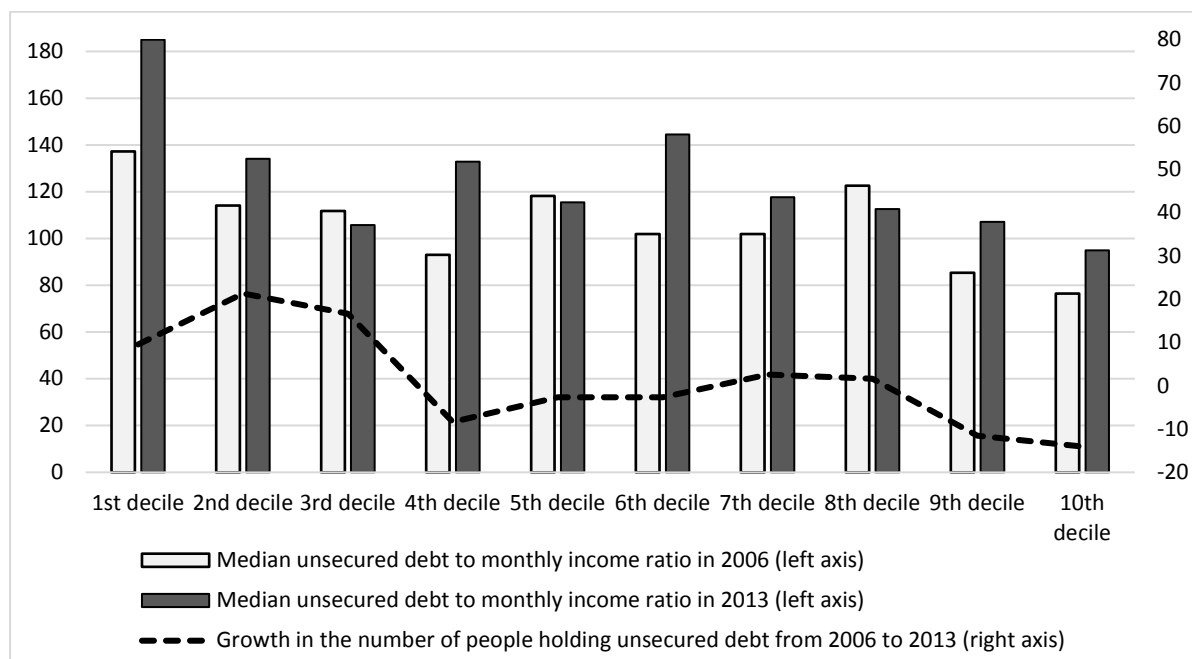
Rising indebtedness of low income families in Britain has been directly related to the effects of austerity programme, especially to the changes in the welfare system. The 2008 crisis presented a new opportunity for neo-liberal political ambitions for sizing down the welfare state further. While the pressures in national budgets are real, alternative policies that could work without austerity have been shunned (Lavery 2018, Green and Lavery 2015, Wren-Lewis 2016, Blyth 2013). The welfare state has been rolled back yet again across Europe (Taylor-Gooby et al 2017). Shorter support for young people and those on Employment Support Allowance (ESA) and the introduction of caps on a range of benefits (including child benefit, incapacity benefit and lately universal credit)⁴ have directly contributed to high indebtedness on low incomes in Britain (Mitton 2016, Kersbergen *et al.*, 2014, DWP 2016). Local authorities were worst affected in comparison to other government departments with a 50 per cent cut in their budgets in real terms from 2010 to 2016 (Gray and Barford 2018).

Disciplinary aspects of welfare policies have become particularly aggressive (Watts et al 2014) with a wide range of sanctions being implemented routinely. These have affected some of the most vulnerable people unjustifiably (Oakley 2014). Overall, according to estimates of the Office of Budget Responsibility, OBR (2016), a total of £45.4 billion will have been cut from the welfare budget until 2021, excluding increases related to uprating and case load (£33.6 billion during 2010-2015 under the Coalition government and £11.8 billion under the Conservative government). Incapacity benefits alone are estimated to decline by £2.1 billion in the same period. These measures have affected the ability of LIHs to meet their basic needs, with around one-third to half of the benefit recipients being unable to afford the essential costs of living (StepChange 2018, p. 4).

3.1. Debt for essential necessities

In this section, the rising debt burden of LIHs for essential needs has been discussed on the basis of the two most relevant categories of debt. One is unsecured debt (e.g. credit card, overdrafts, store cards, payday loans) that is not supported by collateral assets such as land and buildings. Although unsecured debt is not always used for basic necessities, the discussion in the next two sections indicates that it is an important last resort for the essential needs of LIHs. The other is arrears on essential household bills such as rent and energy.

Figure 1. Unsecured debt by income status (%)



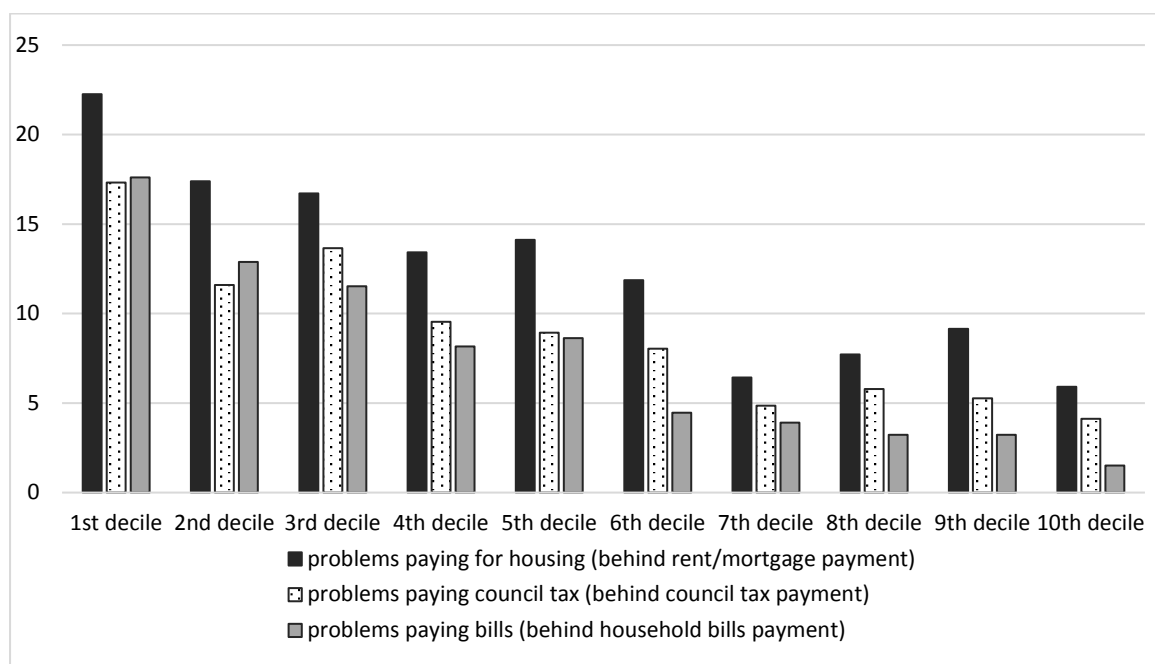
Source: Debt to income ratio is estimated as the ratio of outstanding unsecured debt to monthly take-home pay, using data from the BHPS 2005-2006 Wave and the UKHLS 2012-13 Wave. Note that these surveys collect financial data every five years and the most recent collection was in 2012-2013. While there may be some differences across the range of variables in the BHPS and UKHLS, the information on debt and other financial statistics included in this study had been specified and coded in a compatible way, hence was not affected by the transition from the former to the latter.

Country wide data show that, post crisis, the average debt burden of British households with respect to unsecured debt increased from £2800 in 2006-2008 to £4000 in 2014-16 (ONS 2016, 2018). Debt-to-Income Ratios (DIRs), which are widely used as measure of debt burden (Gathergood and Guttman-

Kenney 2016, Hood et al, 2018),⁵ provide a comparative picture of the degree of indebtedness in Figure 1 for ten income groups, ranging from the bottom 10 percent of the population with the lowest incomes, going up to the top 10 percent with the highest incomes. This clearly shows that the debt burden of the lowest income households in the first decile had the highest growth (35 percent) from 2006 (before the crisis) to 2013 (under the Great Recession and austerity). Considering that 22 percent of the population was in poverty both in 2006 and 2013 (DWP 2017) the population in the first decile is likely to contain the poorest households.

Much of this rise is presented as a form of over-indebtedness (EU 2010, FCA 2018), reflecting a shift in the moralisation of debt from being seen as necessary for ‘financial subjects’ to govern their own consumption to being seen as excessive behaviour (e.g. buying things on impulse; spending without ability to afford) (Marron 2012). A further culpability is identified in the lack of financial literacy. Considerable efforts and resources have been invested to enhance capabilities in this area (NAO 2018). Negative moralisation of the use of credit and stress on financial literacy are ways of reformatting existing subjectivities through what Aitken (2010) calls ‘dividing and pathologising’ techniques that distort reality and individualise wider social problems. While it is true that levels of debt have been unmanageable for a significant proportion of LIHs as our data and discussion here and below shows, this is largely related to adverse developments in the labour market (Andre et al 2013, Blanchflower 2015, Gallie et al 2017) and the welfare system rather than being related to individual behaviour (as will be shown below). For example, with a DIR of 35 percent, the debt burden of the unemployed was more than twice the debt burden of the employed during 2012-2014 (ONS Wealth and Assets Survey). Similarly, data provided to us by StepChange, a major debt advice charity, assisting over half a million people –mostly on low incomes– indicate that the recipients of Job Seekers Allowance experienced the greatest budget pressures under austerity.

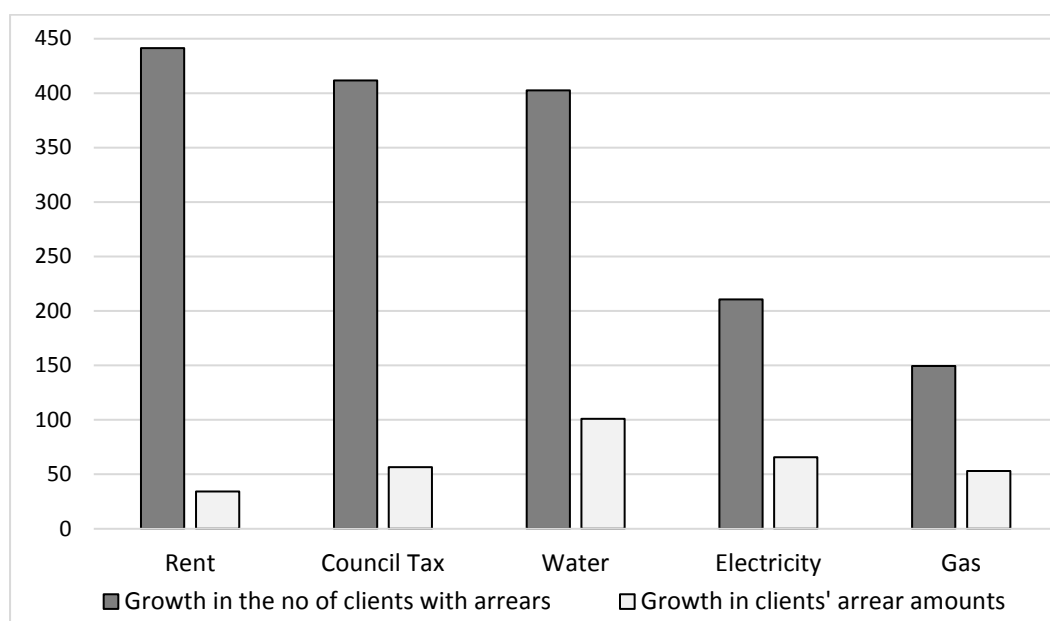
Figure 2. % of population behind payments or in arrears in 2012-13



Source: UKHLS (2012-2013)

An important element of LIH indebtedness with respect to unsecured debt during the period of austerity has been arising from difficulties with essential payments rather than the aspiration of households to accumulate assets or to keep up with their wealthier peers. This is corroborated by the UK Household Longitudinal Study (UKHLS) which collected data on self-reported difficulties in paying rent, council tax, or household utility bills such as electricity, gas, water rates etc. More specifically, the survey reported the extent to which respondents were behind payments for essential needs. Figure 2 provides a reflection of the circumstances in this respect for 2012-2013, several years after the austerity measures first rolled out. Classifying this data by income reveals that a greater proportion of LIHs had arrears of essential bills. Over one-fifth of the UKHLS respondents in that category found it hard to keep up with their housing payments and around 18 percent were behind with council tax payments and a similar proportion were behind with payments for essential household bills. Note that although council tax payments are not for basic needs such as food, shelter and key services, non-payment of council tax can lead to being sanctioned and affect other welfare benefits. Individuals with council tax arrears are found to be four times more likely to be behind on their rent and water accounts and three times more likely to be behind on their electricity and gas bills (StepChange 2015)

Figure 3: Growth of arrears on essential payments from 2009 to 2016 (%)



Source: Step Change (2009-2016)

Further evidence on the relationship between being on low income and having debt (arrears) for essential needs for recent years is provided by debt advice charities, assisting excessively indebted households.⁶ For example, the Citizens Advice Bureau indicated that two-thirds of the over one million debt problems they dealt with during 2016-17 were related to household bills such as rent, energy and water. This represents a major change in the debt structure of low income households since the rollout of austerity policies in 2010-2011 when debt for household bills accounted for only one-third of debt related advice (CAB 2018). Moreover, changes in the welfare system and the continuing transition to Universal Credit resulted in benefit overpayments and these are now becoming a major

source of growing indebtedness amongst low income families. The rising debt for essential household spending is also confirmed by National Audit Office that provided a minimum estimate of £18 billion in personal debt owed to government, utility companies, landlords and housing associations (NAO 2018). A breakdown of arrears on essential expenditures is given in Figure 3 for StepChange clients. This shows that the number of those with rent, council tax and water arrears was more than quadrupled from 2009 to 2016. In terms of amounts, average debt per client doubled for water, increased by 66 percent for electricity and over 50 percent for gas and council tax. Rent arrears alone affected one in five clients in 2017 and those in social housing were more likely to be in rent arrears than those in the private sector (StepChange 2018).

3.2. The links between the rising debt for essential needs and the welfare reforms: evidence from semi-structured interviews

The rising debt burden of LIHs is closely associated with the regressive changes in the welfare system during the austerity period. Since 2010, the debt of LIHs who were in need of advice has been increasingly accounted for by debt to local authorities and central government while in the same period debt problems caused by private creditors were more than halved (CAB 2016). In this section, using data obtained through semi-structured interviews, we discuss the relationship between LIH debt for essential needs and post crisis welfare retrenchment.

In the first place, let us provide some details about the data collection process, relevant to this section. The interviews were conducted in two phases. The initial interviews were held in 2015 for a wider study, investigating how LIHs coped with hardship in times of crises. In this round, a total of 24 interviews with participant households and 18 interviews with key informants were carried out in London, Cornwall and Wales. The assessment of research material in 2016 revealed that the use of debt was a crucial element of coping for a significant proportion of low income families. This prompted another round of qualitative study in 2017, focusing exclusively on the extent, sources and uses of debt. In this second round, further interviews have been conducted with 12 highly indebted low income households in addition to four key informant interviews and two focus group discussions with the senior officers and frontline debt advisors of major debt charities (Citizens Advice, StepChange, Christians Against Poverty, Money Advice and Toynbee Hall). Key informant interviews have been important in verifying the validity of the data obtained through household interviews as these organisations together cover a large proportion of highly indebted people in Britain and were able to reflect on the changing patterns of indebtedness across the country.

Our assessment and findings based on these interviews with respect to the relationship between welfare austerity and over-indebtedness, can be highlighted under five major points.

Firstly, for the most vulnerable households, debt or arrears have often been a means of keeping hunger at bay. Evidencing use of debt for food needs is not easy and statistical data are not available. Semi-structured interviews with over-indebted low income households and key informants provided considerable evidence that people use overdrafts, credit cards or other forms of loans just ‘to put food on the table’.

‘A lot of people are having to make decisions whether to eat or pay for the gas to cook the food on. I’ve known parents who don’t eat properly to make sure the kids get fed. And

people sitting in really cold homes because they can't afford heating...' (Key Informant, Christians Against Poverty, Cornwall)

Mary, a single mother in her 30s with three special-needs children in East London told us that sometimes she just tells herself 'listen we've got to feed these kids' and buys food, using the overdraft. Madeline, a 35 years old single female participant in East London talked about her vulnerability because despite receiving her Employment Support Allowance on the day of the interview, she had to use it for a week's rent and was still two weeks behind and there was no money for food and cried out in her frustration:

'...I don't know how the hell anybody survives on this amount of money because it's just impossible...housing benefit should just be for rent but that ends up being the only money there is so, at the moment, credit cards maxed, that's been maxed for ages, overdraft's maxed, everything's maxed, all the bills are outstanding, *[sighs]*

At the time of the interviews, both Mary and Madeline were entirely dependent on welfare benefits. However, cuts, freezes and restrictions outlined in the beginning of this section forced them to mix benefits with debt through overdrafts, etc. in a manner akin to the 'entrepreneurial' use of finance described by Langley (2008) and Lazzarato (2011).

Secondly, the cap on benefits and the sanctions introduced as part of the austerity programme, have contributed to high indebtedness for essential needs. For instance, Joana (a single mother with 3 children in East London) used to contribute £17 per week towards her rent. After the welfare reforms, her contribution rose to £68 a week. Because she felt she could not afford food for her children, she stopped direct debit payments for rent which led to arrears on her rent and water accounts. Many like Joana, who struggle to pay the extra contribution and fall behind on their rent payments, are either evicted or threatened by eviction. According to a recent report by the National Audit Office, 63 percent more households (over 100,000) were threatened with eviction in 2016 due to rent arrears in comparison to 2009 (NAO 2017).

Sanctions are applied either because of the failure to make extra contribution that lead claimants to be in breach of their claimant commitment agreement or because of a miscommunication between the participant and the job centre or the contractors of the Department for Work and Welfare (DWP). Welfare reforms under austerity led to the widespread application of sanctions to different benefits in the form of reduced or severed payments, leading invariably to rising levels of indebtedness. For example, the proportion of sanctioned recipients of Job Seekers Allowance more than doubled between 2007 and 2013 (DWP 2016). In 2015, close to half a million sanctions were applied (NAO 2016). Documents, not handed in on time, correspondence lost and difficulty in navigating through complex procedures to access or maintain benefits were all consequently penalised with a sanction, which in many cases resulted in a sudden halt to benefit payments and arrears. For instance, John's rent arrears ensued a housing benefit sanction, imposed after a delay in the submission of a document. Maria, due to delays in her medical reports, saw her housing, council tax and ESA benefits stopped, resulting in substantial arrears on associated accounts. Some, like Amelia, were evicted from her social housing after being sanctioned.

Thirdly, the Social Fund prior to the austerity period played an important role for those on welfare benefits in containing the effects of unexpected minor crises such as the breakdown of a fridge or washing machine or a leaking roof through grants or zero-interest loans. The closure of the Social Fund as a measure of austerity, meant that many people did not have access to crisis support to avoid borrowing. Many local authorities have tried to contain the effects of such crises by introducing 'discretionary schemes' which in most cases suffered from lack of resources and hence were ineffective in filling the gap left by the centrally funded and universally available Social Fund.

Fourthly, there are significant interactions between the austerity measures and deterioration in labour market conditions. These interactions have led people bouncing between welfare and work (Shildrick et al. 2012), further contributing towards greater indebtedness on low incomes.⁷ Sam, a woman in her 30s with three children lost her council flat due to rent arrears. 'He [the husband] does a market job and when it's good, money comes in, but if it's bad times money doesn't come in'. Cynthia told us emotionally, after finding a new job all her benefits stopped although she was not on a permanent contract. So, when she lost her job, she rapidly accumulated debts. Cynthia's case, according to our key informants, resonates with the stories of many others, who resort to borrowing or other forms of debt due to benefits being terminated or demand for higher contributions.

Finally, and most importantly, the pressure on low income households are intensified with rising collections and enforcement pursued by local authorities or other government agencies whose conduct is increasingly aggressive, involving debt collection companies, court actions and bailiffs. One of the key reasons for rising destitution in Britain, according to Fitzpatrick et al (2018), is debt collection measures. In the case of council tax arrears, a StepChange (2015) survey found that sometimes bailiffs visited homes outside 'reasonable hours', or continued action despite clients agreeing a repayment plan or entered homes when only children were in or contacted friends and family about individuals' debts. The affected people are also supposed to cover the administrative cost of bailiff action which can go up to £500.

In a 2016 survey...half of respondents said they had been treated unfairly by bailiffs. More than 40 percent said they were treated badly by a local authority creditor, and HMRC debt collection practices were rated no better than payday lenders.' (StepChange 2017: 6).

Indeed, our interviews also confirmed that banks and other private companies were more willing to engage in debt restructuring and write off when contacted by debt advisers than public sector agencies which hounded the claimants through intimidating calls or letters.⁸ For example, Blessing had to retire on medical grounds and found herself with growing liabilities. She reached a point where 'the letters were coming fast and furious' threatening her with court action and so on. She was so scared and helpless that she stopped opening the letters and promised to pay something when phoned 'just to get them off [her] back'. This level of persecution by local authorities partly reflects the severity of financial constraints they face. The impact of austerity on the budgets of public sector organisations led to a significant shift in their conduct with respect to debt collection. The fact is that the public spending cuts have been mostly cascaded down to the local authorities (LAs) which, in the words of a report by Hastings et al (2015), reached a 'tipping point' with the burden being disproportionately shifted on the poorer LAs. According to this source, the cuts in the budgets of the

most deprived LAs amounted to £220 per head in comparison to £40 for the least deprived LAs during 2010-2015.

4. Discussion and Conclusions

A growing number of studies recognise the important role of financialisation and regressive changes in the distribution of income and wealth for the dynamics of household indebtedness. However, this strand of research almost exclusively focused on the period leading up to the 2008 crisis and the Great Recession, hence, providing little insight into the dynamics of household debt under austerity. The few studies that are related to the post crisis period mostly focus on financial providers such as payday lenders (Marston and Shevellar 2013, Rowlingston et al 2016, Aitken 2017). To our knowledge, this is the only study, focusing on the indebtedness of LIHs with specific reference to the austerity period in Britain.

Evidence in this paper shows that while growth of household indebtedness prior to the crisis may have reflected a desire to accumulate wealth or maintain socially acceptable lifestyles, a different phase of indebtedness has emerged under austerity. The evidence from surveys, debt advice organisations and interview data shows that the LIHs have been incurring debt for basic necessities such as food, shelter and key services. This underpins the fact that debt is not always accrued from financial providers but also from non-financial companies, providing key services like water and energy or local authorities, providing social housing.

The rising debt of LIHs has been accompanied by divisive (Aitken 2010), moralising techniques (Marron 2012) of governmentality to create the necessary subjectivities. Prior to the crisis, positive moralisation of credit/debt, embedded in a disciplinary process, normalised the greater use of finance in the everyday lives of middle and low income families for better lifestyles, home ownership and various forms of insurance. Post crisis, concerns about 'over-indebtedness' of LIHs by major entities such as FCA (2018) and EU (2018) with emphasis on the need for prudence, thrift and financial literacy have implied further revision of subjectivities. This, coupled with the portrayal of welfare recipients as 'shirkers and scroungers' in the media and political discourse (Garthwaite 2011), reflect reinforcements to the process of reformatting the subjectivities in relation to the welfare provision. Furthermore, the evidence showed that welfare recipients are now forced to mix restricted sources of subsistence in an enterprising fashion akin to the entrepreneurial use of finance, discussed by Langley (2008), Lazzarato (2011) and others. These included rebalancing shortcomings in welfare benefits with overdrafts and credit cards or accumulating arrears on one essential household bill in order to be able to repay another debt or arrear.

There is a direct relationship between the greater use of debt for essential needs and austerity measures in general and welfare reforms in particular. The process in which LIHs' debt for essential needs is rising reflects the shifts and revisions in the techniques of neo-liberal governmentality that some political economists highlighted (Aitken 2010, Langley 2008, Lazzarato 2013). There has been an intensification of the disciplinary nature of welfare provision post crisis. The discussion above highlighted two measures, in particular. The first is the widespread use of sanctions due to the cap and freeze on benefits or enhanced monitoring for eligibility (e.g. through work programmes, digitised oversight on job search efforts, reviews and assessments). Paradoxically, rising destitution as a result

of welfare austerity (Fitzpatrick, et al. 2018) led to rising arrears on council accounts because of non-payment of rents, council tax, etc by LIHs. Hence, local authorities (which have been the primary agents of implementing the cuts) in their attempt to cut the welfare bill have become *de facto* creditors for low income households under austerity. This brings us to the second measure: the aggressive use of administrative and legal enforcement of debt collection methods. In their desperation to balance the books, which were heavily affected by austerity measures, local government and other public sector agencies resorted to more authoritarian practices for debt collection, using debt management companies, court actions, bailiffs and evictions which further deteriorated the indebtedness of the LIHs.

Together, these two measures have created a severely *punitive and precarious welfare* provision for LIHs, cutting or restricting their lifeline to meet basic needs and hence, effectively leading to greater indebtedness. Welfare precarity in this way forced the poorest households to choose between debt and hunger, and to incur debt from variety of financial providers or accumulate arrears on essential services. The deep disciplinary revisions in the post crisis governmentality remind those who are partly or fully dependent on the welfare state that there is no ‘freedom and security’ on benefits and not even for their most basic human needs unless they ‘maximise’ their efforts for employability (Lazzarato 2013). Benefits should no longer be taken for granted and visible efforts must be displayed at reviews and assessment to show that welfare support is deserved.

Overall, whether these measures are seen as ‘state-capital alliance’ or the state serving the interests of capital, it is notable that the governments that provided direct support to financial institutions through, for example, enhanced deposit guarantees or debt forbearance programmes (Langley 2009) to maintain their solvency and profitability, have only afforded punitive measures to the poorest sections of the society in Britain and directly contributed to their debt burden. Moreover, although austerity programmes are supposed to be for the short to medium term and hence transitional until some level of stability is achieved, the continuing persistence with austerity and welfare retrenchment a decade after the 2008 crisis bears the potential for these changes to be structural and to exacerbate the problems with indebtedness among low income households.

NOTES

¹ For example, the Life Cycle Hypothesis (Modigliani 1966) predicts greater borrowing by younger individuals to smooth consumption over a life-time but cannot explain the dynamics of debt across different socio-economic groups. Behavioural finance considers factors such as money management style, attitude to debt and financial literacy (Heidhues and Koszegi 2010, Disney and Gathergood 2013) although significant shifts in household indebtedness at a macro level cannot be explained by individual behaviour.

² The regime of accumulation approach views financialisation as a process of rent extraction through financial channels (e.g. securitisation) at the cost of wages and profits through productive channels.

³ In this view, financialisation serves to raise shareholder value in the form of dividends, share buybacks that motivated short-term business strategies.

⁴ For an extensive list of all the benefits affected with the cap, please see <https://www.gov.uk/benefit-cap>

⁵ Note that in estimating DIR, we only included those who held debt and the median data for each decile.

⁶ Families in need of debt advice typically have much higher debt levels than the generally accepted thresholds of 20-25 percent of income. For example, the average unsecured debt-to-net income ratio for the clients of StepChange was around 70-85 percent.

⁷ In precarious work or underemployment, the ability of people to save for 'a rainy day' is very limited and lack of savings to fall back on is one of the most important reasons behind over-indebtedness. More than one-third of people without savings cut back on spending for essentials and over 20 percent borrow to maintain the spending on essentials (StepChange 2018: 5).

⁸ People reacted to these in different ways (and this to some extent depended on the severity of their indebtedness) but invariably all experienced mental strain and anxiety which has been ever present in the conversations of our participants in line with other studies (Clayton et al 2015, Hojman et al. 2016).

BIBLIOGRAPHY

- Aitken, R. (2007), *Performing Capital Toward a Cultural Economy of Popular and Global Finance*, (Palgrave Macmillan: Basingstone)
- Aitken, R. (2010), 'Regul(ariz)ation of Fringe Credit: Payday Lending and the Borders of Global Financial Practice', *Competition and Change*, 14 (2), pp. 80–99
- Aitken, R. (2015) *Fringe Finance: Crossing and Contesting the borders of Global Capital*, (Routledge: London and New York)
- Aitken, R. (2017), 'All data is credit data: Constituting the unbanked', *Competition and Change*, 21 (4), pp. 274-300
- Andre, C., Garcia, C., Giupponi, G., Pareliussen, J.K. (2013), 'Labour Market, Welfare Reform and Inequality in the United Kingdom'. *OECD Economics Department Working Papers No. 1034*.
- Angel, S. and Heitzmann, K. (2015), 'Over-indebtedness in Europe', *Journal of European Social Policy*, 25 (3), pp. 331–351
- Appleyard, L., Rowlingson, K. and Gardner, J. (2016), 'The variegated financialisation of sub-prime credit markets', *Competition and Change*, 20, pp. 297-313
- Barba, A. and Pivetti, M. (2008), 'Rising household debt: its causes and macroeconomic implications', *Cambridge Journal of Economics*, 33 (1), pp. 113-137
- Blanchflower, D. G. (2015), 'As good as it gets? The UK labour market in recession and recovery'. *National Institute Economic Review* 231: F76-F80
- Carr, M. D. and Jayadev, A. (2015), 'Relative Income and Indebtedness: Evidence from Panel Data', *The Review of Income and Wealth*, 61 (4), pp. 759-772
- CAB (2016), 'The state of debt collection' Citizens Advice Bureau
- CAB (2018), 'Hidden Debts: The growing problem of being behind on bills and in debt to the government, Citizens Advice Bureau
- Clayton, M., Linares-Zegarra, J. and Wilson, J. O. S. (2015), 'Does debt affect health? Cross country evidence on the debt-health nexus', *Social Science & Medicine*, 130 (1), pp. 51-58
- Coppock, S. (2013), 'The everyday geographies of financialisation: impacts subjects and alternatives', *Cambridge Journal of Regions, Economy and Society*, 6 (3), pp. 479-500
- Crouch, C. (2009), 'Privatised Keynesianism: An Unacknowledged Policy Regime', *The British Journal of Politics and International Relations*, 11, pp. 382–399
- Disney, R. and Gathergood, J. (2013), 'Financial literacy and consumer credit portfolios', *Journal of Banking and Finance*, 37 (7), pp. 2246-2254.
- Dowling, E. (2017), 'In the wake of austerity: social impact bonds and the financialisation of the welfare state in Britain', *New Political Economy*, 22 (3), pp. 293-310
- DWP (2016), 'Job Seekers' Allowance and Employment Support Allowance Sanctions Statistics, Department for Work and Pensions' <https://www.gov.uk/government/collections/jobseekers-allowance-sanctions>
- Dymski, Gary. A. (2010), 'Why the Subprime Crisis is Different: a Minskyian Approach', *Cambridge Journal of Economics*, 34 (2), pp. 239–55
- Erturk, I., Froud, J., Johal, S., Leaver, A. and Williams, K. (2007), 'Democratisation of Finance? Promises, outcomes and conditions', *Review of International Political Economy*, 14 (4), pp. 553-575
- EU (2010), Over-indebtedness, New evidence from the EU-SILC special module Research note 4/2010, European Commission, [URL: http://ec.europa.eu/social/BlobServlet?docId=6708&langId=en](http://ec.europa.eu/social/BlobServlet?docId=6708&langId=en)
- FCA (2014), *Consumer Credit and Consumers in Vulnerable Circumstances*, Financial Conduct Authority, London
- FCA (2018), *The Financial Lives of Consumers Across the UK*, Financial Conduct Authority
- Finlayson, A. (2009), 'Financialisation, Financial Literacy and Asset-Based Welfare', *The British Journal of Politics and International Relations*, 11, 400–421
- Fitzpatrick, S., Bramley, G., Sosenko, F. and Blenkinsopp, J. (2018), *Destitution in the UK 2018*, Joseph Rowntree Foundation
- Foucault, M (2007), *Security, Territory, Population: Lectures at the Collège de France 1977-1978*, M Senellart (ed), (Palgrave Macmillan, Basingstoke)

- Froud, J; Haslam, C; Johal, S and Williams, K. (2000), 'Shareholder value and Financialization: consultancy promises, management moves', *Economy and Society*, 29 (1), pp. 80-110
- Gallie, D., Felstead, A., Green, F., and Inanc, H. (2017), 'The hidden face of job insecurity', *Work, Employment and Society*, 31 (1), pp. 36-53
- Garthwaite, K. (2011), 'The language of shirkers and scroungers?' Talking about illness, disability and coalition welfare reform' *Disability & Society*, 26 (3), pp. 369-372
- Gathergood, J. (2012), 'Self-control, financial literacy and consumer over-indebtedness', *Journal of Economic Psychology*, 33 (3), pp. 590-602.
- Gray, M and Barford, A (2018), The depths of the cuts: uneven geography of local government austerity, *Cambridge Journal of Regions, Economy and Society*, 11, pp. 541-563
- Green, J. and Lavery, S. (2015), 'The regressive recovery: distribution, inequality and state power in Britain's post-crisis political economy', *New Political Economy*, 20 (6), pp. 894-923
- Hastings, A., Bailey, N., Bramley, G., Gannon, M. and Watkins, D. (2015), 'The cost of the cuts: the impact on local government and poorer communities', Joseph Rowntree Foundation
- Heidhues, P. and Koszegi, B. (2010), 'Exploiting naiveté about self-control in the credit market', *American Economic Review*, 100 (5), pp. 2279–2303
- Hojman, D. A., Miranda, A. and Ruiz-Tagle, J. (2016), 'Debt trajectories and mental health', *Social Science and Medicine*, 167, pp. 54-62
- IFS (2018). *Problem debt and low-income Households*, Institute of Fiscal Studies
- Langley, P. (2008), 'Financialisation and Consumer Credit Boom', *Competition and Change*, 12 (2), pp. 133-147
- Langley, P. (2009), 'Debt, Discipline and Government: Foreclosure and Forbearance in the Sub-Prime Mortgage Crisis', *Environment and Planning A*, 41, pp. 1404-1419
- Lapavitsas, C. (2009), 'Financialised capitalism: crisis and financial expropriation', *Historical Materialism*, 17 (2), pp. 114-148
- Lavery, S. (2018), 'The legitimization of post-crisis capitalism in the UK', *New Political Economy*, 23 (1), 27-45
- Lazzaratto, M. (2011), *The Making of the Indebted Man*, Semiotext(e) intervention Series 13
- Lazzaratto, M. (2013), *Governing by Debt*, Semiotext(e) intervention Series 17
- Marron, D. (2012), 'Producing over-indebtedness', *Journal of Cultural Economy*, 5 (4), pp. 407-421
- Marston, G. and Shevellar, L. (2013). 'In the Shadow of the Welfare State: The Role of Payday Lending in Poverty Survival in Australia', *Journal of Social Policy*, 43 (1), pp. 155-172
- Mitton, L. (2016), 'The Financial Crisis as Game Changer for the UK Welfare State', In Schubert, K., de Villota, P., Kuhlmann, J. (Eds.), *Challenges to European Welfare Systems*. Springer
- Modigliani, F. (1966), 'The Life Cycle Hypothesis of Saving, the Demand for Wealth and the Supply of Capital', *Social Research*, 33 (2), pp. 160–217
- Montgomerie, J and Williams, K. (2009), 'Financialised Capitalism: After the Crisis and beyond Neoliberalism', *Competition & Change*, 13 (2), pp. 99-107
- NAO (2016) *Benefit Sanctions*, National Audit Office
- NAO (2017) *Homelessness*, National Audit Office
- NAO (2018) *Tackling problem debt*, National Audit Office
- OBR (2016) 'October 2016 Welfare Trends Report', Office for Budget Responsibility, United Kingdom
- Oksanen, A; Aaltonen, M & Rantala, K (2015), 'Social Determinants of Debt Problems in a Nordic Welfare State', *Journal of Consumer Policy*, 38 (3), pp. 229-246
- ONS (2016), 'Household Debt Inequalities', Office for National Statistics, United Kingdom
- ONS (2018), 'Wealth in Great Britain Wave 5: 2014 to 2016', Office for National Statistics, UK
- Patel, A., Balmer, N. J. and Pleasence, P. (2012). 'Debt and disadvantage', *International Journal of Consumer Studies*, 36, pp. 556–565
- Shildrick, T; MacDonald, R; Webster, C and Garthwaite, K. (2012), 'Poverty and insecurity: Life in low-pay, no-pay Britain', Bristol University Press
- Stegman, M. (2007), 'Payday Lending' *Journal of Economic Perspectives*, 21 (1), pp. 169-190
- Soederberg, S. (2013), 'The US Debtfare State and the Credit Card Industry: Forging Spaces of Dispossession', *Antipode*, 45 (2), pp. 493-512

-
- Soederberg, S. (2014), *Debtfare States and the Poverty Industry*, (Routledge, London, New York)
- Stenning, A., Smith, A, and Rochovská, A, and Świątek, D. (2010), 'Credit, Debt & Everyday Financial Practices', *Economic Geography*, 86 (2), pp. 119-146
- StepChange (2015), 'Council Tax Debts', (London: Step Change)
- StepChange (2018), 'Behind on the Basics', (London: Step Change)
- Taylor-Gooby, P., Leruth, B. and Chung, H. (2017), *After Austerity: Welfare-state Transformation in Europe after the Great Recession*, (Oxford: Oxford University Press)
- Wisman, J. D. 2013. Wage stagnation, rising inequality and the financial crisis of 2008, *Cambridge Journal of Economics*, 37, 921-945
- Watts, B., Fitzpatrick, S., Bramley, G., and Watkins, D. (2014), 'Welfare Sanctions and Conditionality in the UK', Joseph Rowntree Foundation
- Van der Zwan, N (2014) 'State of the Art: making sense of financialization', *Socio-Economic Review*, 12, pp. 99–129