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Editorial

The Legacy of Debt

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Readers of this journal are familiar with the nature of consumer debt, and the role it played in destroying much of the equity of middle class families after the housing crisis caused by the financial meltdown of 2008 and the collapse of real estate prices. Starting in the late 1970s, to make up for stagnant real wages while sustaining consumption, households relied more and more on consumer debt or extracted fictive equity from their homes. Tracking expenditures, most families continued the upward trend of buying more, living better and expanding their quality of life. But it was all built on a false hope that the debt burden would never come to haunt them (Ivanova, 2011).

This is a well-rehearsed narrative of the collapse of the middle class, and the realization that real wages had not improved for the better part of four decades. Income inequality vaulted into our consciousness, mainly through the activities of the Occupy Movement but also through the day-to-day privations faced and the increasing foreclosure crises as people everywhere lost their homes or saw their savings in the form of home equity wiped out. Communities suffered as property values declined, and with them the revenues most communities relied upon to fund local services. Schools in major cities, already generally starved for funds, were forced to consolidate buildings and reduce their teaching staffs, resulting in overcrowding and an increasingly deteriorating system driving out those who could flee to suburban communities. Cities like Detroit were often referred to as a place occupied by families whose children were under 6 or over 18, reflecting the dismay over the poor quality of the educational system. The unspoken corollary was that this exodus was an economic flight, not the 'white flight' generally used to explain Detroit's demise (Detroit was truly the "canary in the cage" early warning of what was to come for the country writ large as it was burdened by the combination of massive debt and a dismantling of its industrial infrastructure). Detroit now represents one of the largest cities in the country entering into bankruptcy, and perhaps the long term question is whether this is an aberration or trend as cities everywhere begin to buckle under the combined financial stresses of reduced revenues (in large part due to the absence of a Federal urban agenda), underfunded pension obligations, and the new realities of global capitalism characterized by increased mobility (easily moving resources from one locale to another and abandoning plants and local investments) and large gains in productivity (as in the case of Detroit, the automobile industry now produces the same number of cars with one quarter of the workforce).

More recently, we have been hearing about the rapid growth in student debt, regaled with numbers that beggar the imagination. For example, it is reported that bank profits from private student loans exceed that of Apple Computing and Exxon/Mobil combined. And we learn now that student loan indebtedness exceeds one trillion dollars, one of the largest categories of personal debt. Add to this changes supported (some say imposed) by the banking industry that removed student loan eligibility for relief in personal bankruptcies (all other debt can be discharged or restructured), and we get a picture of a growing number of young people potentially indentured for life. In the past year the Brookings Institution released several reports. One (Greenstone and Looney, 2013a) tried to unravel the causes of rising student indebtedness, the other (Greenstone and Looney, 2013b) mapped the relationship between education and social mobility (though this is not new information, see, for example, Haveman and Smeeding, 2006). As more and more students rethink taking on debt we face a society increasingly bifurcated between those few who can either afford elite schools or can sustain the debt levels needed, and those who will not get the educational credentials necessary for well-paying jobs in this new economy. Neither of these reports are surprising—perhaps what is interesting is that mainstream analysts are now taking notice of a process that has been ongoing for several decades.

There are, however, two very important aspects of student debt that must be discussed. The first is that, while reports of crippling $100,000 debt levels abound in the popular press, most students graduating college have far smaller debt burdens. Regardless, it is the impact of debts at a "more reasonable" level of $20,000 that we must consider: servicing this debt when earning low entry level pay usually means that most young people completely ignore any contributions to retirement savings. At a time when Social Security offered at least a basic floor to sustain a person into old age, this would not have been a problem. But now all indications, based both on changing demographics and a toxic political landscape, are that Social Security will at best only meet a small portion of one's needs when one has retired. Alternatively, under this scenario these students may never be able to retire!

The second implication of rising student debt relates to who holds much of that debt. Clearly, those who graduate within the 4-6 years of schooling with some student loands have a reason to expect their income will allow them, sooner or later, to pay off this debt. But like all debts, if all that is paid is the minimum required the debt continues to grow and repayment may become a working life obligation. But what of that large and growing proportion of holders of student debt who never manage to graduate? They will not likely find the kind of employment necessary to discharge this debt easily without the educational credentials required in this new economy. Some have started to argue one does not need to have a college degree to do very well, but research coming out of Georgetown University (Rose, 2013) clearly shows the benefits and advantages for both current and lifetime earning for workers with college degree and above. The situation only gets more serious for young adults for the remainder of this decade (Carnevale et al, 2013)—education is the key to getting a well-paying job, and students leaving school without their degrees but burdened by student loans face a very bleak economic future.

Debt can be viewed more broadly in terms of global forces and the environment (Rice, 2009) or the political machinations around the national debt and increasingly obstructionist environment in our government (Street and DiMaggio, 2012). Whether on a personal level (the business presses were concerned at one point that consumers were holding back spending, but are now relieved as personal debt—and consumer spending—is once again on the rise) or the way banking industry has manipulated the credit system to make it impossible to discharge student loans, there is a justified concern over debt levels.

Marx outlines a process whereby the necessary forces of capitalism and its search for ever expanding profits drives workers towards greater and greater immiseration. Changes in the way capitalism has functioned for the past 200 years have transformed some of the broad outlines of this process, and the introduction of global capitalism and the financialization of capitalist production has altered many of the rules, but not the fundamentals, of capitalism as a system. This growing personal debt as young workers seeking to acquire the necessary skills and credentials to compete in this new stage of capitalism may well become the financial analogue to the sweatshops and company towns of earlier capitalist expansion, leaving a whole new generation of workers in a constant state of debt peonage and hopelessness.

The articles in this issue grapple with the scope and impact of this growing debt, the role of banks as they manipulate and gain advantages in an ever increasingly tangled financial web, and the way our political institutions both facilitated these changes and failed to avert the financial disaster that resulted. What is being posed are questions about why did this happened, what has been done to keep it from happening again, and how might we change the terms of the discussion to alter the system that gave rise to this problem in the first instance?

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