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## New faces of poverty

Debt as a sociological category

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HÁSKÓLI ÍSLANDS

# New faces of poverty

## Debt as a sociological category

Piotr Kowzan

My research project was to find the meaning given to indebtedness in Iceland. The project is part of my doctoral research and was conducted under the supervision of Prof. Tomasz Szkudlarek and Dr. Steinunn Hrafnadóttir. It was supported by Iceland, Lichtenstein and Norway with a grant received from the Norwegian Financial Mechanism and the European Economic Area Financial Mechanism through the Scholarship and Training Fund. In Autumn 2009 and Spring 2010 I took 20 semi-structured interviews with indebted people whom I met in Reykjavik: 10 of them were Icelanders and 10 – immigrants.

When I came to Iceland in 2009, I realised that debt was not considered a problem in itself, only the unpredictability of their growth. Meanwhile, for many Poles the whole idea of financial debt was controversial. At first, I felt somehow old-fashioned. Later, I was inspired by anthropology, when I found that my research can be seen as an à rebours repetition of the traditional movement of scientists from modern to pre-modern societies.

In this article, I will use both examples from Iceland and from my previous observations in Poland, hoping that they will also indicate more general processes. I will present indebtedness in relation to several divisions, institutions, social phenomena and in this way show that both the amount and the quality of debt are crucial for understanding peoples' reactions of opportunities and threats of the contemporary world. The category of debt can be especially important for the sociology of poverty, because debt can link to poverty in two ways: firstly, debt can lead to poverty, and secondly, poor people can incur debt in order to pay their bills or take loans to increase the quality of their life. It does not mean that these two phenomena – debt and poverty – are identical. Nevertheless, their co-occurrence and potential mutual conditioning encourage further research.

## Debt and emancipation

The basic reason for being in debt among my respondents in Iceland was a loan taken to buy a house or a flat. The second popular reason was a car loan, and then credit taken to launch one's own business (secured by the mortgage). Getting educated also resulted in being indebted, because of student loans. These student debts were not considered as a significant burden in the monthly spending of respondents' households, though the eventual date when student loans will be repaid was unimaginable for everybody. In this perspective, debt can be understood as a kind of shadow following active people. They chose a place to live (a house), they became geographically mobile (a car), they decided to educate themselves (a degree) and to run a business. Their debt is the long-term consequence of purchases made on credit.

The two elements of the opposition credit/debt inform us about a basic lack. It was the lack of resources for the subjects, which made it difficult to become equal with their reference groups. They felt this lack before taking the loan and when they had to pay it without necessary resources. Reference groups are people one aspires to

and compares oneself to – for example when people from the group have cars, one usually also wants to have it. At the same time, the purchase can be treated as luxury for the broader public. As a consequence, people who became indebted trying to get what others from their reference group already have, are often blamed for their fate, unless their aspiration was to lever themselves to a generally accepted minimum standard, that is, to escape poverty.

Debt can also be produced independently from loans; e.g. by getting fines; because of unpaid housing rent; by being charged for obligatory reparations of buildings; because of guaranteeing someone else's debt; because of healthcare costs or by receiving an inheritance burdened with debts.

## Debt and social classes

In the contemporary world or at least within the European context, the amount of money workers have does not depend only on their salary. Workers are credited (Urbański, 2007). Peter Sloterdijk (2009) claims that this is the reason why tensions between capitalists and workers, as they were seen by Karl Marks, can be considered minor.

Nowadays, it might be easier than in the 19th century to realise that in order to launch a company capitalists borrow resources on financial markets and because these credits must be paid together with interests, the business has to generate profit to cover these interests. Indebtedness is the basis for the thesis that the political interests of workers and capitalists happens to be convergent, if they are about limiting the power of creditors.

From the researcher's perspective I can say that debt is a social class problem in the sense that the collected knowledge about mechanisms governing the lives of people who experience economic violence comes mostly from representatives of the middle class. If problems related to the issue of indebtedness were not touching teachers, journalists, office workers, scientists etc. I would have had few respondents, because the majority of people in debt seem to avoid discussing financial issues, whereas those who “work with words” are less ashamed by their debt. It is only an observation and it is hard to say if it illustrates a broader regularity. My respondents, who – after Barbara Ehrenreich – could be named the “Nouveau Poor” (2009) were sometimes outraged because indebtedness forced them to use social assistance institutions. Some said that in turn they “withdrew their support for the state”, which had turned its middle class into the poor, for which the institutions of help and control were originally established.

## Debt and gender

One of the reasons of falling into debt is the traditional division of social roles in the family, which is slightly different nowadays, but still exists. It presupposes that the man is the breadwinner and the woman decides how to satisfy the household's needs. Tracing stories of debt, one may find that even in Icelandic society the man undertakes contacting financial institutions and subsequently decides which decisions need to be discussed collectively by the family. Despite the traditional gender scheme being often abandoned, it is especially strong among couples from different countries in which the woman is an immigrant. As a result, there are cases when women get married to men who present a wide variety of signs indicating a high social status (e.g. a house, cars, holidays abroad, consumption of luxury goods), but these signs are all “on credit”. Insufficient knowledge regarding rules of possession in contemporary

capitalist societies leads women into debt, the existence of which they don't know about until the divorce. Debts which burden people because of such a “catch”, are called sexually transmitted debts (STDs), emphasising their connection to diseases of this type. This term, called also Emotionally Transmitted Debts (Baron, 1995), is especially popular in Australia. Its definition and other causes particular to the vulnerability of women to STDs are extensively described by Miranda Kaye (1997).

More complex cases of STDs come into being when migrants create “migrant networks” (Faist, 2000) by supporting more or less kin new-comers in a new country. Sometimes, help meant that a migrant family, which was well-established in Iceland (owned a house) guaranteed a loan for a car that a new-comer needed. Without such guarantees, a person with “no history” had hardly any chance of buying products, which were relatively expensive, but popular enough to be seen as inevitable. However, displaying trust in people in order to equip them with resources is burdened with some risk. The financial crisis in Iceland induced a sudden diminishing of these support networks. Debts caused by car loans (often taken in foreign currencies) increased rapidly, new-comers capitulated and left the island, while their debts accumulated and loaded mortgages of guarantors, which threatened the financial security of the most integrated immigrant families. It is worth noticing that it was not only immigrants who supported new-comers. Icelanders guaranteed loans to immigrants as well, but I did not come across any cases in which they were hurt because of that.

## Debt and subjectivity

It is more difficult for indebted people to say “enough” and answer a “hippie” call to leave the “rat race”. They will not stop working even if they have all the material goods they need. The necessity to pay back their debts in instalments forces them to sustain relationships, which provide them with constant income. Thus, debt seems to be an important part of disciplinary mechanisms in affluent societies.

It is important to distinguish obligations to other people from debts in financial institutions (called legal personalities, although they are not people as such). Debts between people suggest deeper social relations between the debtor and the creditor, while relations between people and legal personalities are only based on law. These debts are measurable and they may be collected by the use of all means attributed to the power in a given society. The quality, quantity and popularity of such obligations are interesting features of modern societies.

In the case of Poland and other so called post-communist countries, where promoting individual loans as a solution for social problems is a new phenomenon, the dislike for being indebted to financial institutions is still strong. In Poland, the reason for that may be partly attributed to a strong presumption that the long economic crisis preceding the collapse of the communist regime was generated by the government taking foreign loans; and to the still alive criticism of “living on credit” in the 1970s. Moreover, even Polish proverbs warn against borrowing money and there is a tradition of thinking that one should not spend more money than one has (Kwaśniewski, 2010). The aversion to debt is especially visible among immigrants in Iceland, when it is contrasted to the relaxed (until 2008) attitude of Icelanders towards debt.

The financial crisis in Iceland suddenly brought many people into financial distress. What was new was the scale of the problem. There are heavily indebted people in all capitalist countries, but usually their problems are considered individual, not social. There are many reasons for that. One of them is the process of the growing isolation of indebted individuals. This process may be called the collapse of subjectivity or

alienation. Financial distress often turns sociable people into apathetic ones, who isolate themselves from the world. Consequently, their families may fall apart and they will lose interest in their jobs, if the salary doesn't prevent their debts from growing. Social workers in Iceland told me that their main challenge was to persuade indebted people to be more active. Organisations, which help the indebted, often face their apathy. Sometimes they need to go as far as to give orders to their clients, so that they would take a few simple actions and reduce their debt with the use of available knowledge. Unfortunately, often only giving clients orders helps to restore the debtor's hope that escaping debt is possible.

Not all indebted people go to social assistance institutions. Some commit "heroic" deeds under the influence of their debts; i.e. actions that exceed existing social norms. This makes it even more difficult to perceive the problem of debt from more than an individual perspective. One such spectacular heroic deed in Poland was an indebted catholic priest robbing a bank (Kącki, 2010). It was controversial, because he subordinated many social norms to the obligation of repaying his debts.

## Debt and education

Graduating from university, both in Poland and Iceland, increasingly results in debt. In the global context, subsidising student loans by the state was supposed to soften the consequences of fees at universities worldwide. The contribution of the state to student loans differs between countries (Shen & Ziderman, 2008). Only some countries, such as Denmark, provide students with real scholarships, which are enough to survive. Fees at universities differ as well, and once introduced, they tend to grow (Handley, 2010; Shepherd, 2010). One of the effects of state subsidies is specifically the impossibility to distinguish loans from scholarships. Eventually, even people who were raised to be cautious with borrowing money decide to live under long-term financial obligations. The "profitability" of student loans seems to be functional for the contemporary capitalist order and this function is pedagogical. Subsidised credit "tames" young people for the financial system and simultaneously overcomes their cautiousness towards "living on credit". Student loans tend to be perceived as an additional income and some student organisations protest when the loan is too little to survive. When students in Iceland realised that there would not be enough summer jobs for them, because of increased unemployment, their organisations started lobbying for loans during summer holidays and summer courses to support their claim.

Being aware of long-term obligations changes students' behaviour – the decision if they should do postgraduate study becomes a matter of financial calculation. Previous research shows that debt prevents people from further studies, at least in the USA. They also seem to influence the decisions of females more than the decisions of males (Davies & Lea, 1995; Fox, 1992). People calculate how much education they can afford. Thus, debt can have its role as a mechanism regulating the number of students at universities.

Debt is not a side-effect of education any more, but instead it became its primary condition. Thus, Jeffrey Williams (2009) claims that debt needs to be understood as a central experience for students and he enumerates 6 lessons which form "the pedagogy of debt". Firstly, debt teaches that education is only a consumer service. Secondly, it teaches to choose career paths which enable people to pay debt back. Relatively low interests rates and a long time to pay the debt back (in comparison to consumer credits) allows students to ignore the significance of starting their career "in the red", but the necessity of paying regular instalments makes it difficult for graduates to look for alternative or less commercial career paths. Thirdly, debt creates

a world-view, in which everything is exchangeable on the market. Fourthly, it changes the notion of the citizen by redefining the social contract into an obligation towards financial institutions, which in return enables the indebted citizen to subscribe to public services. Fifthly, debt teaches only one value – that the basic dimension of other human beings is their financial potential, i.e. how much debt they can carry. Sixthly, debt teaches a very specific type of sensitivity. It is based on the fear of losing one's job or health (Ehrenreich, 1989), which would lead quickly to insolvency and subsequently to the financial ruin and social degradation of one's family. It is too early to say how effective this pedagogy is, but it is important to observe these lessons.

## Debt and enslavement

People in debt are not always poor in a way that would allow social workers to help them. Both in Poland and in Iceland, support from the social security system is restricted to those who have a low income. Poverty occurs, however, when indebted people pay instalments before satisfying all other needs. It is not always possible to secure a sufficient amount of money to survive, since paying debts is considered by some a question of honour and respect for oneself. Apart from that, people are afraid not to pay their instalments on time, since then their debt could rapidly grow.

In Poland, the reason for rating obligations towards banks higher than an obligation towards friends and relatives comes sometimes from the psychological terror which debt-collecting departments organise for debtors, with the use of communication networks. Sending letters and text messages "reminding" the debtor about a delay in paying the debt, as well as about the consequences for this lack of discipline; calling the debtor and using manipulation techniques in the conversation; or even using automatic machines for the conversation with a debtor – all this contributes to an enormous level of stress experienced by people who have problems with paying their debts, and, as a consequence, also problems in judging their own situation. To show how frequent the reminders from banks are, I would like to give an example of a suicide from an article "Ukredytowany" [Credified = the combination of the words credit and crucified] by Joanna Blewaska (2010, p. 3): "He received text messages every half hour from many different banks. He made a mistake, he got involved in a dangerous spiral. But the banks were harassing him. Could they have hoped that he would find the money in half an hour? No. It was just to terrorise him!"

Another interesting issue related to debt is the so called "working off" the debt, that is, working for the creditor and paying the debt this way (Servet, 2004). This kind of deal gets only positive comments in the Polish media (Mikulec, 2010), even though it can easily lead to enslavement. Today, working debt off needs the debtor's consent and involves mostly housing co-operatives. However, it is slowly spreading to schools that collect fees (Stańczyk & Płoskońska, 2005; Szumer, 2008). However, we can already read that one can work the debt off for another person (Moritz, 2009). It does not need much to imagine grandchildren working off their grandparents' debts. The occurrence of this new servitude can grow, especially if it is not possible to pay the debt off and the work lasts forever.

## Debt and resistance

Since debt is related to freedom, debtors sometimes demand political representation of their interests. In Poland, a spectacular example of such a movement was the farmers' labour union and then the political party called "Samoobrona" [Self-defence] in the 1990s. Its first members were farmers who got into the so called spiral of

indebtedness. They were constantly endangered by debt collectors. The financial and legal situation of the first victims of the new banking system in Poland forced them to seek political representation. In Iceland, on the other hand, indebted people were mobilised into social movements and organisations during the financial crisis. One of these organisations was Hagsmunasamtök heimilanna [Iceland's Home Coalition], which organised a pay-strike on all mortgage loan payments. Starting political campaigns in order to influence an organisation or a country – by giving Voice – is after Albert Hirschman (1970) seen as a symptom of loyalty to the structures one would like to change. The loyalty is probably forced upon individuals by the fact that they are not able to act more radically (e.g. because of their age) and leave the place (an organisation or a country), where they suffer from injustice.

The strategy of Exit, considered by Hirschman as an alternative to the strategy of Voice, is also a traditional reaction to indebtedness. David Graeber claims, in an article introducing his book “Debt: The First Five Thousand Years” (2009) that already in the ancient Sumerian empire, debtors were leaving cities in masses, in order to lead a partially criminal nomadic lifestyle far from the power that could enslave their family as a result of their unpaid debts. Exit strategy is nowadays used by 20,000 student debtors from Sweden. They refused to pay their debts and disappeared (probably left the country). The Swedish agency responsible for student loans tries to trace them internationally to get back the money estimated to be about 340 million dollars (Simpson, 2009). Even though today personal bankruptcy does not lead to slavery, but usually to a long social exclusion from the banking system and other spheres of life, still one of the reactions to the growing personal indebtedness in Iceland was emigration (in 2009 for the first time in Icelandic history more people left the island than came there and were born).

Debts were also an important reason for many Poles to come to Iceland before the crisis. On the one hand, some came to work in Iceland and earn more money than in Poland, so that they could pay their debts back home. On the other hand, many migrants that I managed to talk to came to Iceland in order to avoid having debt. They were so unwilling to buy flats, cars or other things with the use of loans, that they were ready to leave their country of origin in order not to have these obligations.

## Final notes

To conclude, in the context of the financial crisis indebtedness means a significant driving force for people in Iceland. However, debts do not necessarily mean poverty. People get into debt for various reasons, but in general they do it to improve their lives. However, in this paper I tried to present how debt could appear and grow independently from loans and how it can make debtors' lives miserable and impoverish both themselves and their relatives. Indebtedness makes all social differences and inequalities more severe, because it exposes people to power. Debt can be collected by the use of legitimate violence. People seem to be aware of their vulnerability and therefore there is a relation between debt and migration.

Exploring fields where debt can occur and influence human behaviour and living conditions was aimed to start a discussion about the new neoliberal subject – an indebted human being. It is a heroic personality – either extraordinary active or extraordinary passive. These new subjects are both encouraged to debt and blamed for it.

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