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Abstract

This article examines the conceptual transformation of what was once considered usury into finance. To counter traditional arguments that usury was exploitative and unnatural, early modern theorists reconceptualized debt as a form of investment for both borrowers and lenders. Today, this ethical justification of debt as an investment underlies the rhetoric of finance and financialization. Close examination of the realities of contemporary financialized debt, however, reveal that much of this rhetoric is misleading and false. While the rhetoric of finance is unrelentingly oriented toward the future, the lived reality of debt is one of being constrained and haunted by the past. Relatedly, this rhetoric exhorts borrowing for investment, while finance has actually had the opposite effect of making consumer debt a necessity for the majority of Americans. Taken together, these realities of debt today contradict the rhetoric of finance as investment and undermine the ethical framework on which it depends.

Keywords

Ethics, usury, debt, finance, rhetoric, investment

Introduction

> Financial technology is a time machine we have built ourselves. It can't move people through time, but it can move their money. As a result, it alters the economic position of our current and future selves. It also changes the way we think.
>
> (Goetzmann, 2016: 2)

> For debtors, 'every present is past preoccupied and nothing more is to be expected in the future than what the past has already laid down'.
>
> (Tanner, 2016: n.p.)

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Indebtedness is a pervasive feature of life in the United States (US) today. Over 80% of Americans are in debt, carrying a median debt of $68,000 per household, up from $15,000 in the 1970s when adjusted for inflation (Pew, 2015; Landy, 2013). Total US household debt has grown from less than $2 trillion in 1980 to over $12 trillion today (Vindagos, 2015). This growth in debt is not coincidental to financialization and the recent growth of finance; rather, debt is fundamental to finance. From the French *fin*, the term 'finance' originally referred to paying off or closing a debt. In the late eighteenth century the term began to take on the sense of providing and managing credit and, at that time, most of the activity of finance still took place under one roof. Lenders made loans, collected payments, prosecuted defaults, and kept net profits. However, this does not describe most finance in the US today, which inserts additional agents into the basic debtor-creditor relationship, such as investors and financial intermediaries. Investors are not themselves lenders, but they possess assets that can be used for lending purposes. Meanwhile, intermediaries create and manage financial contracts that pool investor assets to purchase, securitize, and trade debts. Under the intermediary model of finance, traditional lenders often become mere originators of loans, quickly selling debts to financial intermediaries and investors.

The intermediary model of finance is not new, but it has recently come to dominate the financial industry. The deregulation of financial services that began in the US in the late 1970s and continued through the 1990s had the effect of allowing for the creation of new kinds of financial products that are sold and traded by a wider range of intermediaries (Krippner, 2011: 58-85). And as the intermediary model has become dominant, the financial industry has grown at an unprecedented rate. Today, finance as a fraction of US GDP is at an all-time high of over 8%, compared to only 1-2% historically (Phillippon, 2013). The pace of this growth has not been steady; rather, finance's share of both GDP and corporate profits has grown at a greatly accelerated rate since the late 1970s. Comprising 4% of GDP in 1950 and 5% in 1980, finance is over 8% of GDP today. And finance now accounts for over 20% of corporate profits, compared to only 10% in 1980 (Yardeni and Johnson, 2017).

Simultaneous increases in debt and financialized assets have funded this extraordinary growth. The financial industry's profits derive largely from fees charged for the services it provides to mediate between debts and investments in debt.[1] Overall, the fees charged for these services have remained relatively stable, but the sheer quantity of both debt and financial investment has increased dramatically (see Philippon, 2015). The financial industry today manages a record $74 trillion in assets worldwide, a large portion of which is based in the US (Shub et al., 2015). 53% of US households now hold professionally managed assets, compared to only 25% in 1980 (Greenwood and Sharfstein, 2013: 10-12). At the same time, household debt has more than doubled, from 48% of GDP in 1980 to 99% today (Greenwood and Sharfstein, 2013: 5). Business debt and public debt have also grown substantially. Total public debt in the US is now over 100% of GDP, three times the level in 1980 (Federal Reserve Bank of St. Louis, 2016), and non-financial business debt is now 70% of GDP, compared to 50% in 1980 (Yardeni et al., 2016). The financial industry profits from the fees charged for the underwriting, management, securitization, and trading of this massive growth in debt, funded by the increasing quantity of assets that the industry simultaneously profits from managing.

Debt is thus essential to finance. It is, as Rana Foroohar (2016: 9) notes, "the lifeblood of finance" (see also Krippner, 2011: 52-54). I argue, however, that the reality and lived experience of debt today stands in stark contrast to the optimistic rhetoric of finance and financialization. I begin by examining the origins of this rhetoric as it emerged in the early modern era in response to earlier critiques of usury. In contrast to those critiques, the new rhetoric emphasized the potential for debt to create wealth and grow the economy, conceptualizing debt as an investment in the future. I then turn to assess the rhetoric of finance in light of financialized debt today, arguing that the realities of that debt belie this rhetoric. First, while the rhetoric of finance is unrelentingly oriented toward the future, the lived experience of debt is one of constrained possibilities and enforced demands from the past. Second, the financial industry today contradicts its rhetoric of investment by aggressively encouraging households to borrow for consumption. Taken together, these realities of debt contradict the rhetoric of investment and future wealth that underlies financialization.

From usury to finance

Contemporary finance has its origins in the early modern era, when debt began to be conceptualized as a form of investment for borrowers as well as lenders. Prior to that time, lending at interest had generally been regarded as a harmful and exploitative enterprise, whose profits derive from preying upon a borrower's present need at the expense of their future well-being. Lenders were judged unethical because they take advantage of others, especially the poor, by providing loans that are onerous or even impossible for debtors to repay. Moreover, lending money at interest was regarded as unnatural in that it is parasitic upon the proper and original purposes of money. The lender profits without actually producing or exchanging anything real, and thus one-sidedly extracts future value from the present economic activity of others.

Aristotle's critique of moneylending laid the foundation for those that followed. He argued that lending for profit is antithetical to virtuous human relationships, and thus to human well-being. Those who engage in lending at interest display the vice of meanness or un-generosity. Persons with this vice attribute more value to money and wealth than those things deserve, deriving pleasure from the activity of taking from others (Aristotle, 1999: 48-50). They are not interested in money as a means of accessing goods and services; rather, their goal is to amass as much wealth for their future selves as possible. Moneylenders display this vice both by taking excessively and by taking from those who cannot afford it. Like pimps and thieves, who also display the vice of meanness, they love money so much that they will take from the poor and rich alike, and are willing to tolerate the moral condemnation of their fellow citizens.

Moreover, Aristotle argued, there is something deeply unnatural about profiting from interest. Money facilitates production and trade by providing a way to measure and compare the value of different sorts of goods, and it stores value over time (Aristotle, 1999: 74-76). It allows us to bridge the gap between the present and the future by storing present value in the form of savings, providing a means of preparing for the future through one's present activity. Given that these are the essential functions of money, Aristotle contends, it is unnatural to use money to grow more money, as one does when lending at profitable rates of interest (Aristotle, 2013: 47). The moneylender takes something that was created to assist in exchange and saving, misusing it to reproduce itself. Profiting from interest thus allows lenders to accumulate future wealth in a way that is parasitic upon the present economy. To put the point another way, we could adopt Marx's terminology and say that money lending is an instance of self-valorizing capital, the logic of M-M', in which money is created out of money alone.

Subsequent thinkers developed critiques of usury along similar lines to Aristotle. 'Usury' derives from the Latin *usura*, meaning the interest paid on a loan. The term took on negative connotations very early, due to the prevalence of widespread indebtedness and high interest rates in ancient Rome. Seneca discussed the ethics of debt in this context, arguing that usury is both an unnatural and a dishonorable activity. Promissory notes and letters of debt are not real things, he contends, but rather "phantoms of property" from the past and "unreal fancies" created by the greed of lenders (Seneca, 2011: 171). Though debts only exist on paper, we give them the power to control the time and very blood of debtors. Lending for profit, he concludes, is a "perverted" business, one which is based upon a fiction that nonetheless causes real harm to borrowers.

The medieval church's stance on usury was influenced by these philosophical arguments, but also by passages on lending that appear in Psalms, Ezekiel, Leviticus, and Deuteronomy. Ezekiel and Psalms contend that one should not lend at interest to the poor with the intention of profiting from them. Leviticus holds that those who collect interest from the poor prey upon their present need for the purpose of future gain. Finally, Deuteronomy, which ultimately became the standard source for church policy, prohibits lending at interest more generally. However, both Leviticus and Deuteronomy specify that usury is prohibited only amongst Israelites. Both texts permit lending at interest to strangers, and it is this exception which came to be interpreted as allowing Jews to lend to Christians, and thus helped to create a prejudicial association between Jews and lending that has lasted for centuries and contributed to Jewish persecution.

The scholar Thomas Aquinas (1975) most explicitly connected the biblical texts with philosophical arguments in support of the church's opposition to usury. Drawing upon a rich history of church commentary on the impermissibility of buying and selling time, he argued that usury steals from God (Aquinas, 1975: 233-253). Usury is trading something that currently exists (the loaned funds) for something that does not yet exist (the sum of those funds plus interest). Those who lend at interest buy something they have no right to, namely the future labor and time required to repay the loan, with interest added. However, time ultimately belongs to God, so usurers steal not just from debtors, but also from God himself (see Le Goff, 1982: 29-42; Lazzarato, 2011: 44-49).

This early history reveals that, from the Greeks up through the Middle Ages, the ethics of debt was understood primarily in terms of the ethics of lending. The business model of lenders was regarded as parasitic upon both the natural economic order and upon the well-being of debtors, many of whom cannot prioritize future wealth to the same degree as creditors, and thus are compelled to sell their futures in order to gain goods and services in the present. The ethics of borrowing and repayment, in contrast, received far less attention. Debtors were legally obliged to repay debts, and the means of enforcement could be quite severe. In some cases, debtors were offered the choice of servitude, imprisonment, severe bodily harm, or death. More often, they had no choice, and debt slavery was common throughout the ancient and medieval world in a variety of forms.[2] To be sure, then, debt contracts in the pre-modern era were enforced, often through means that were inhumane. But the ethical obligations of debtors were scrutinized far less than the obligations of lenders who, unlike most borrowers, had the means and ability to take advantage of the present neediness of others for their own future gain.

The early modern era witnessed the beginning of a revolution in how debt and its ethical dimensions were understood. The English philosopher Francis Bacon rejected the traditional critiques in favor of a new realism about the contemporary context in which usury was already taking place. Bacon (1844: 47-48) argued that prohibitions on usury in the Old Testament were essentially political rather than moral, merely reflecting the laws of the day. Bacon further proposed that usury must be allowed to exist in order for existing economic needs to be met. Individuals and businesses alike, he observed, must at times make use of credit. If lenders would lend money without any expectation of profit, then interest could be banned. But because lenders are in fact unwilling to lend for nothing, they must be allowed to lend at interest in order that widespread needs for credit be met.

In this line of argument we can discern a new way of thinking about debt, one that asserts a legitimate economic role for lending at interest. When lenders extend credit, they do so for the purpose of investment, relinquishing the means for acquiring goods and services in the present, in the hope of generating wealth for their future selves. But in so doing, they also provide an economically valuable service. Lending meets a market demand in the present and, as the Dutch philosophers Hugo Grotius and Samuel Pufendorf argued, it also creates new opportunities for investment and future economic growth. By the seventeenth century, Dutch bankers had long been offering commercial loans at high rates of interest, loans that played a direct role in funding Dutch merchant capitalism and the rise of the first modern financial economy (Geisst, 2013: 88-89). In this context, Grotius focused on the risks and opportunity costs incurred by creditors. Interest rates are not exploitative, he contends, so long as they reflect the risk and trouble creditors take when providing funds to borrowers, funds which they might not ever recover and which they could have instead used themselves in another way (Grotius, 1901: 150-158).

Pufendorf agreed, arguing that interest rates are justified as compensation for the risk assumed by creditors, given their essential purpose of achieving future profit. It is certainly "unbecoming of a Christian", he concedes, to charge interest to those who instead deserve charity (Pufendorf, 1729: 510). But lending would be severely curtailed if creditors, who are essentially investors, could not decide how much interest to charge. The economic conditions when Leviticus and Deuteronomy were originally written were radically different, he argues, such that it made sense then to assume that most lenders made their profit from exploiting the poor. But in his own time, Pufendorf contends, *investment* has instead become the primary purpose of borrowing and lending. Creditors provide capital that finances the new ventures undertaken by borrowers. In such an economic context, outlawing usury would have a devastating effect on future economic growth. Moreover, such a ban would disproportionately affect the poor, since the wealthy would still be able to invest in new enterprises while the poor would be excluded from such opportunities.

This argument reveals a new paradigm for understanding debt, one that regards debt as a legitimate vehicle for investment in the future rather than exploitation of a borrower's present need. The rise of this paradigm provides a new justification that appeals to an economic rationale transcending the behavior of individual lenders, whose business is now regarded as contributing to the future well-being of poor as well as rich borrowers. This rationale countered both of the traditional arguments for the immorality of usury. Consider the argument that lending money for profit is unnatural because it is parasitic upon production and exchange. When viewed from within the investment paradigm, this argument loses its force. If debt fuels investment, and investment supports future production and exchange, then lending is not parasitic but rather nurturing of the economy. The ostensive origins of money and credit thus become irrelevant to the opportunities for future economic growth created by lending. Consider also the argument that usury is immoral because it is predatory and exploitative of a borrower's present need. When viewed from within the investment paradigm, this argument succeeds only in pointing out that some lenders are, in fact, unsavory individuals. But, be that as it may, such lenders can now be seen to provide an important service, enabling borrowers to grow their own wealth and facilitating future economic growth.

This paradigm was further developed and strengthened in the writings of the British philosophers Jeremy Bentham and Adam Smith in the late eighteenth century, just as the term 'finance' was beginning to take on the meaning of providing and managing credit. Bentham

(1818: 6) was openly dismissive of the traditional critiques of usury, which he mocked as simplistically asserting that “usury is a bad thing, and as such ought to be prevented: usurers are a bad sort of men, a very bad sort of men, and as such ought to be punished and suppressed”. On the contrary, Bentham believed that creditors are “perfectly innocent and even meritorious” and “deserve praise rather than censure” for providing a valuable economic service (p. 57). It is true, he admits, that poor borrowers are more likely to face high interest rates given the higher risks associated with lending to them. But poor individuals, he insists, are no less capable than wealthy individuals of deciding what is in their own long-term interest, and it is inappropriately paternalistic for legislators to foreclose credit opportunities to the poor by capping interest rates. Doing so would burden the poor by preventing them from accessing credit when it is needed, while simultaneously vilifying and driving underground the lenders who would provide it to them. Anti-usury laws force lenders to become criminals who must evade the law in order to meet a pre-existing market demand. And in so doing, such laws, Bentham notes with consternation, create and feed anti-Jewish prejudice (p. 98-99).

Bentham cites several examples of advantageous borrowing as part of his argument that usury can be in the long-term interest of debtors as well as creditors. A tradesman, for instance, might require credit to move his goods to market and thus command the best price. And the beneficiary of a will might not, without credit, be able to raise the fees needed to defend his legal rights and take possession of his inheritance. However, not all borrowers take out loans for purposes like these, a fact which Smith and Bentham both acknowledge. In response, Smith (1937: 333) introduces a distinction, still used by economists today, between debt for production and debt for consumption. Production debt, which originally took the form of loaning labor, tools, and animals, is taken out for investment purposes, i.e., to generate greater wealth in the future. Consumption debt, in contrast, is for the purpose of increasing access to goods and services in the present, and is thus more shortsighted. Properly speaking, Smith contends, the purpose of debt for both borrowers and lenders should be investment rather than consumption. Lending is justified in that it meets a market demand for productive credit, i.e., credit that borrowers as well as lenders make use of in order to create future profit and thereby grow the economy.

The investment paradigm thus responds to the traditional critiques of usury by redefining debt. The paradigm denies that lending is essentially unnatural and exploitative; rather, at least in its proper and primary form, debt is understood as a legitimate vehicle for borrowers as well as lenders to invest in creating future wealth. Borrowing for investment is, therefore, to be allowed and encouraged, whereas borrowing for the purpose of consumption is to be discouraged or merely tolerated. And since creditors provide a valuable and needed economic service, their business is morally legitimate so long as they do not employ fraud or coercion (see also Padgett Walsh, 2014).

Debt in the time of finance

This investment paradigm underlies the rhetoric of finance today, providing a purported rationale for its increasingly prominent role in the economy and in our lives. We can observe the paradigm’s influence, for instance, in a recent essay by Nitin Nohria, Dean of Harvard Business School, who argues that the financial industry fosters economic growth by creating new opportunities that would not exist otherwise and thus “remains a fundamentally value-creating enterprise” (Nohria, 2016: n.p.). Certainly the financial industry creates opportunities for asset holders and intermediaries, but his claim is that it also creates valuable investment opportunities for debtors. For example, without the asset pooling and risk sharing provided by the industry, Nohria contends, mortgage lending would be greatly reduced. Fewer Americans would be able to invest in home ownership because credit would be more restricted without the existence of financial intermediation. He thus justifies the existence and influence of finance today by pointing to its ability to grow future wealth for debtors as well as investors and creditors.

Indeed, as Robert Kolb (2010: 26) has noted, the modern theory of finance is essentially founded on the idea that "money has a time value". Finance can convert present value into greater wealth in the future, for debtors and creditors alike. It is thus "incredibly empowering", William Goetzman (2016: 2) contends, in that finance bestows upon us all the ability to transform the future through our present activity. Creditors and investors grow current assets by lending them out, thus generating wealth for their future selves. Debtors, in contrast, shift anticipated future assets into the present and thereby, as in the case of a mortgage, grow their future wealth beyond what it would have been otherwise. Financial contracts in this way bind together the present and the future, Goetzman argues, to the benefit of debtors as well as investors and creditors.

As scholars of financialization have shown, this optimistic view of finance permeates and shapes life today in a myriad of ways. It is apparent in the shelves of self-help books that enjoin individuals to take control of their own financial futures through planning and investment (see Martin, 2002: 77ff.). It can be observed in the promotional materials of financial service providers and counselors who promise to help our future selves achieve financial freedom (see Olen, 2013). Increasingly, it shapes how we raise our children, as we attempt to teach them the skills that are required in an economy dominated by complex forms of finance (Martin, 2002: 55ff.; by way of example, see also Karlitz and Honig, 2010). It also transforms education into an investment in "human capital" (Davis, 2009: 194), elevating those fields of study that seem likely to create the most future wealth for oneself (see also Haiven, 2014: 16-17; McClanahan, 2017: 192-94). And it glorifies the figure of the risk-taking financial whiz, encouraging each of us to embrace economic volatility and competition as necessary for success. Indeed, the figure of the risk-taker who leverages precariousness to his own advantage is increasingly, as Max Haiven (2014: 57) notes, "the ideal to which all workers, no matter how humble, are instructed to aspire". In these and other ways, the rhetoric of finance shapes how we relate to our work, to our education, to our loved ones, and even to ourselves.

The concept of risk plays a central role in this rhetoric. Individuals, we are told, must be willing to embrace risk in the present in order to ensure their own future prosperity. The rhetoric of finance thus exhorts us to learn to "assume short-term loss for the promise of long-term gains," as Randy Martin (2002: 112) observes. Now we can each control and improve our own futures through wise asset management and the judicious use of debt, i.e., through the assumption of appropriate levels and kinds of risk. Investors assume risk, like traditional lenders, by surrendering control of present assets in hopes of reaping future rewards. Debtors assume risk by assuming responsibility for future repayment, whatever volatility or contingencies the future many contain, for the purpose of benefitting their future selves. This logic transforms risk from something to be avoided into, as Elena Esposito (2011: 35) explains, "a resource with which I can acquire future benefits (if I use it well)". The wise individual ought to focus then not on avoiding or minimizing risk, but rather on using and managing it correctly.

Also central to the rhetoric of finance is an emphasis on personal responsibility, especially for debtors. As Martin (2002: 107) notes, "now the morally polluted are those who won't take risks and are victims of lost opportunity with only themselves to blame". Those who fail to be adequately or correctly oriented toward the future are accountable for those failures. This emphasis on personal responsibility shifts ethical scrutiny away from traditional creditors and financial service providers, whose business is now regarded as justified because it helps to grow the economy, and onto individual investors and debtors, who are responsible for managing their own risks. Those who fail to invest or do so unwisely will miss out on opportunities for creating future wealth. Those who take on too much or excessively expensive debt must also now pay the price and be held accountable for their mistakes. They will not only miss out on opportunities for creating wealth for themselves; in addition, their future choices must also be constrained by the obligation to repay. For debtors, to have failed, at the moment of borrowing, to be adequately or correctly oriented toward future gain thus implies a distinct loss of freedom for one's present and future selves. The unwise debtor must henceforth put aside his own plans and goals in order to conform to the constraints placed on him by the imperative to repay.

The rapid expansion of the financial industry in recent years and its growing influence on our lives make it urgent that we evaluate this rhetoric. I argue here that the reality of financialized debt today belies its own rhetoric in two related ways, beginning with its fundamental orientation toward creating future wealth.

Debt constrains the lives of debtors

All debts are temporal in nature, extended through time. Anthropologist David Graeber (2011: 100) has observed that in societies based on a presumption of stability and timelessness, in which the future is expected to conform to the past, it makes no sense to keep accounts of what one person owes another. Instead of keeping score, counting up what each individual has taken and contributed, people in societies like the Iroquois give and take freely, unconcerned about any temporary imbalances that arise. They do so because they trust that their relationships are stable and persistent, so that, over time, temporary imbalances will even themselves out. It is regarded as inappropriate, in such contexts, to dwell upon what might be owed to any individual.

Debts therefore only exist in contexts in which there is an expectation that the future can be significantly different from both the past and the present. For financial creditors, whose lending decisions reflect predictions of potential risks and opportunities, the creation of debts is explicitly future-oriented. And in at least some cases, borrowers also follow this logic, albeit from a different perspective. The entrepreneur who borrows to start a business projects her own hopes and plans for the future. The aspiring homeowner who applies for a mortgage loan similarly acts on the basis of expectations for the future. However, although some debts are created in this way, many are not. Debts of reparations, such as those owed to African Americans, for example, are typically incurred without the awareness that a debt is being created. Similarly, tort debts, which are imposed by courts, do not typically reflect the debtor's own goals and plans for the future. And a great deal of household debt, such as credit card debt or auto loans, is taken out primarily for the purpose of gaining access to goods and services in the present. Though the borrower is aware that payment will eventually come due in the future, the wants and needs of the present are what motivate such borrowing.

Debts thus incorporate multiple temporal perspectives. For many of those who are in debt, however, the experience of indebtedness is largely one of being constrained and, as Annie McClanahan (2017: 131) puts it, "haunted" by the past. Obligations of repayment, based on determinations of what is owed, focus primarily on what occurred previously. What one person owes another depends on what has happened before; or rather, it depends on an interpretation of the past. This is true of debts that were voluntarily incurred, such as car loans, as well as those which are not voluntarily incurred, such as tort debts and some medical debts (e.g., those incurred for emergency services when one is incapacitated). It also holds true of debts of reparations as well as debts of gratitude, often non-monetary, that we may owe those who help us. In each case, the relevant debt is ascribed based upon an interpretation of what occurred in the past. The debtor's choices and actions in the present and future are constrained by earlier circumstances of debt creation.

Immanuel Kant highlights this experience of debt as constraint in his discussion of how individuals come to be reduced to a state of servility. Debtors, he contends, are in a servile position in that they must live according to the dictates of their creditors (see Kant, 2001: 122-124, 351). This position represents a real loss of personal freedom and dignity. Debtors are subject at all times to the constraint of having to conform to the demand for repayment, and this demand insinuates itself into their lives at every level, constraining both present and future decisions. Nietzsche, generally a critic of Kant, similarly emphasizes the experience of debt as one of being tied to the past and thereby limited in the present and the future (Nietzsche, 1989: 57-73). Noting that the German word for debt, *Schuld*, also means guilt, he suggests that this etymology captures something essential to the experience of debt. Debtors are regarded as being in some way at fault, as though they have sinned or committed a crime, and therefore as obligated to pay, now and in the future, in order to make amends. We thus require criminals to suffer in order to pay their 'debts to society', a metaphor that illuminates our conceptions of debt as well as crime and punishment (Joseph, 2014).

More recently, Kathryn Tanner and Maurizio Lazzarato have emphasized the extent to which personal indebtedness dominates and controls many individuals today. Debt, as Tanner (2016) puts it, 'chains' us to the past, rigidly determining what the present and future may hold. Demands for repayment contain little flexibility or possibility of renegotiation, requiring those who are in debt to sacrifice both now and into the future, whatever circumstances may arise. Debt structures the debtor's time and activities around the unsparing and unforgiving demand to repay, stripping away choices and narrowing possibilities. The result, as Lazzarato (2011: 31) argues, is a severe reduction of freedom for debtors who, though formally free to act as they wish, are in reality forced to devote much of their time and energy to servicing debts. Every choice that the debtor makes, every action undertaken, must at least be compatible with repayment if the debtor is to ever potentially redeem himself and thereby escape punishment.

This disconnect between the rhetoric of finance and the lived experience of debt is no mere abstraction, at least not for many of those who are presently in debt. Consider the ever-growing use of credit reports as a basis for determining one's present and future life prospects. These reports were originally developed as a tool for lenders to use in predicting how likely a potential borrower was to repay. However, in recent years their use has expanded far beyond this purpose. For instance, though there is no correlation between credit scores and job performance, 60% of employers now use credit reports to evaluate job candidates (Traub, 2011). As Lazzarato (2011: 131-37) notes, the character of individuals and their suitability for employment is thus easily assessed by way of a score, albeit one demonstrably ill-suited to that purpose. Credit reports are also increasingly used by insurance and even utility companies to set rates for individual customers. Those who have lower scores are charged more, which is especially troubling given that African Americans and Latinos tend to have lower scores. And even hospitals are now running credit checks on patients, which raises concerns that some patients might be either turned away or pressured into making health decisions on the basis of their credit scores. All this despite the fact that credit reports are notoriously inaccurate, often including errors or leaving out relevant information, and that it is extremely difficult for individuals to correct such errors and omissions (see Jimenez, 2015).

Debtors today thus find their present and future prospects circumscribed by the credit histories ascribed to them. And they further confront the repercussions of those histories in the form of a large and aggressive debt collection industry. 35% of Americans with a credit report now have at least one debt in collection (i.e., at least 180 days past due), and an additional 5% are past due on a debt (between 30 and 180 days late).[3] Every year, the debt collection industry recovers approximately $45 billion in debt and earns an additional $10 billion in commissions and fees from those debtors (ACCP, 2014). Debt collectors are in some cases hired by creditors and investors to collect on past due debts, but they also commonly purchase debts in default, usually for pennies on the dollar. More specifically, what they purchase are entries in a spreadsheet maintained by the previous owner, entries which can be so riddled with errors that debt sales usually include an explicit disclaimer regarding the accuracy and completeness of the information provided (Jimenez, 2015: 61-63). Nonetheless, purchasing the rights to the debt gives collectors legal standing to collect. They can call, email, and visit one's home or place of work. More seriously, they can also, in many states, attain a court order enabling them to garnish the debtor's wages or seize and sell the debtor's property.[4] These actions can continue long after the debtor has repaid the principal and interest according to the original loan terms because collectors bill debtors for additional fees.

Credit reporting and the debt collection industry thus ensure that large numbers of Americans experience debt not as an investment in a better future, but rather as a constraint upon their opportunities and prospects. Yet, consumer debt has become not only normalized but also, for many Americans, necessary for household survival (McClanahan, 2017: 78-80). 70% of Americans regard debt as a day-to-day necessity (Pew, 2015). And this is especially true of lower-income Americans, who carry much higher levels of debt relative to their disposable income (Baradaran, 2015). Unsurprisingly, the adverse consequences of debt collection and low credit scores thus disproportionately affect lower-income Americans (Short, 2015; see also Alliance for a Just Society, 2016). The need for access to goods and services in the present renders such individuals vulnerable to exploitation, contradicting the rhetoric of finance that reconceptualizes debt as a form of investment.

Debt fails to generate wealth for debtors

A second and related way in which finance belies its rhetoric is by aggressively encouraging individuals, especially those of limited means, to borrow for the purpose of consumption. Household debt, having risen dramatically since 1980, now eclipses lending to businesses; lending to households has risen from 20% of non-public lending in the early 1980s to 75% today (Foroohar, 2016: 10). Much of that growth is in consumer debt. Outstanding credit card debt, for example, now stands at $900 billion, a 1760% rise since 1980 (Sasson, 2016). And a majority of American households carry credit card debt from month to month (Leicht, 2012: 205). Auto loan debt has risen even more quickly, from originally modest levels to over $1 trillion today, with an average balance of $12,000 per household (Schlagenhauf and Ricketts, 2016). Student loan debt has grown more quickly than any other sector, more than tripling just since 2003; total outstanding student debt in the US now exceeds all other forms of personal debt, at $1.4 trillion.[5] And students from middle and lower income families have significantly higher debt loads than wealthier students (Houle, 2013). At the same time, lower income Americans have come to rely on payday loans, auto title loans, and loans from pawnshops to meet living expenses (Pew, 2014).

This enormous growth in consumer debt, especially concentrated in middle and low income households, defies finance's attempt to justify debt as a form of investment. The rhetoric of finance assigns all the responsibility for such debt to individual debtors. Consider Bentham and Smith's early criticisms of consumer debt and so-called prodigal borrowers, i.e., individuals who, in contemporary terms, fail to delay gratification. Prodigals focus on satisfying immediate wants, even if doing so will be less advantageous or even harmful to their future selves. Contemporary psychologists study this phenomenon under the heading of 'future discounting' (see, for example, Huffman et al., 2016). Human beings tend to value present rewards over potential future rewards; we value the future at a discounted rate as compared to the present. We would rather accept $10 today than $12 next week, for instance. However, some individuals tend to discount the future more than others; some can and will wait, while others always opt for the immediate reward.

What explains such differences in future discounting? Bentham regarded prodigality as a personal vice.[6] Some individuals possess less self-control and thus are unable to delay gratification and make wise financial decisions. A high degree of future discounting, then, appears to reflect a character flaw in individual borrowers, one that Bentham viewed as stable over time (see Bentham, 1818: 24ff.). Persons with this vice, he argued, tend to waste resources and fall into trouble whether credit is available to them or not. The prodigal squanders whatever he can come by, and there is no use in trying to deny him access to credit. Smith, in contrast, while no more optimistic about the prospects for changing the essential character of prodigal debtors, thought that the law should be employed to prevent them from making shortsighted financial decisions (on this, see Jadlow, 1977). There ought to be a cap on interest rates, he proposed, one that is sufficiently high to enable borrowing for investment purposes, but also sufficiently low to discourage lending to those who would borrow just to consume.

Bentham and Smith thus disagreed over whether the law should regulate borrowing for consumption, but they agreed on the more basic point that some debtors simply lack self-control, essentially because of a character flaw. The question, then, is whether prodigal borrowers should be protected from their own bad decisions. Smith's view that borrowers ought to be prevented from harming their future selves by borrowing for consumption is echoed today in multiple strains of economic and legal thought. Richard Thaler and Cass Sunstein (2009), for example, argue that incentives and regulations ought to be structured so as to encourage individuals to engage in less future discounting.[7] Debtors should be 'nudged' to seek out loans with lower interest rates or to make additional payments on the principal of existing loans (Jones et al., 2015). Other thinkers go farther, arguing that debtors should be prevented from accessing certain kinds of debt products altogether, such as payday loans that charge extremely high interest rates (as in Peterson, 2012). A guiding principle behind many such proposals is that debtors should be protected not just from predatory lenders but also from themselves, i.e., from their tendency to discount the future and assume too much risk.

Bentham's opposing view that individuals ought to be left to make their own borrowing decisions is also well represented today. Libertarian economists argue that it is inappropriately paternalistic for the state to cap interest rates on payday loans, or to even nudge debtors with mandatory disclosures (e.g., Clarke and Zywicki, 2014). Moreover, they contend, such incentives and regulations can backfire with unintended consequences that negatively affect debtors (Keys and Wang, 2015). However, such thinkers still typically support educational programs to promote financial literacy, arguing that a better understanding of finance would enable borrowers to better make their own decisions (e.g. Durband and Britt, 2012; Prawitz and Cohart, 2014). Everyone, it is agreed, should have access to the knowledge and skills needed to navigate the immense variety of credit opportunities on offer today and thereby take charge of their own financial futures.

What unites these various proposals, despite their substantial differences, is a commitment to the investment paradigm of debt. Borrowing for consumption is to be discouraged, as Smith argued, or merely tolerated, as Bentham held. However, the enormous growth in consumer debt under finance more fundamentally contradicts the idea that debt is essentially a form of investment. The financial industry today not only depends upon the existence of high levels of consumer debt, it also aggressively creates new products and markets for such debt because doing so generates fees and investment vehicles for the growing pool of assets that the industry manages. This aggressive creativity can be observed, for instance, in the rise of subprime lending. Previously considered a niche market that carried high risks, subprime lending was once relatively rare. Credit cards had low limits and were available only to those with strong credit scores, and auto loans were similarly issued only to prime borrowers (i.e., those with good credit histories). The recent expansion of these forms of consumer credit has occurred in part through the rise of lending to subprime borrowers, i.e., those who do not qualify for prime rates. Subprime loans make up, for example, close to a quarter of auto loans today, while half of all borrowers with subprime credit scores have credit cards (Turner, 2016; Niedermeyer, 2016).

This change is largely due to the advent of securitization, which allows investors to purchase shares in securities that appear to be low-risk even though they include subprime debt. The effect of securitization has been to remove traditional constraints on funding for subprime lending, so that creditors and originators now create and profit from signing as many loans as they can sell, whether or not those debts are likely to be repaid. Consider, for example, that subprime lending accounted for only 5% of mortgages until the 1990s, when it began to grow quickly (Hendry, 2013: 143-144). By the mid-2000s, subprime mortgages accounted for over 20% of the mortgage market. When default rates on those mortgages eventually began to rise, foreclosures spiked and mortgage-backed securities lost value, which caused dramatic drops in both financial markets and real estate values. As the 2008 financial crisis thus revealed, securitization does not reduce so much as transfer risk, from the individual investor to the financial system as a whole.

Moreover, the crisis and its aftermath disproportionately affected low and middle income Americans, whose net worth declined by 4% between 2009 and 2011 (Fry and Taylor, 2013). In contrast, the net worth of wealthy Americans increased by 28% during the same period. This disparity reflects greater job losses but also higher foreclosure rates among less wealthy Americans, for whom a greater share of assets are typically tied up in one’s home. Globally, the world’s poor were also disproportionally affected by the financial crisis, which caused dramatic rises in poverty rates and food insecurity, as well as decreases in childhood health and well-being (Rajmil et. al, 2014; Douglas, 2010). Those who can least afford it have thus borne a greater share of the costs of the crisis. Nonetheless, all forms of household debt continue to be securitized today, including mortgages. 50% of all consumer debt is securitized, which raises concerns that subprime bubbles may be immanent in other lending markets, including student debt, credit cards, and auto loans (Guttman, 2016). When such bubbles ultimately burst, the repercussions will again disproportionately affect the poor.

Despite these concerns, proponents of finance continue to claim that it stimulates household borrowing for the purpose of investment, citing increases in mortgage lending and home ownership as evidence of its positive impacts. More individuals can now access credit for the purpose of investing in home ownership, they argue, precisely because the financial industry has increased the supply of credit. However, the evidence for this claim is mixed at best. Average mortgage debt has risen from 40% of disposable income in the late 1970s to around 70% today (Fasianos and Kinsella, 2016). However, this growth in mortgage debt has not translated into a lasting rise in homeownership rates. Between 1940 and 1960, the percentage of American households owning their own home rose from 44% to 62%, and it stayed at approximately that level for over 30 years (Fetter, 2014: 329). In the mid-1990s, homeownership did begin to rise, peaking at 70% in the mid-2000s, but it has since dropped back down to 63% (Callis and Kresin, 2016). The financial industry has thus perhaps contributed to increasing rates of homeownership, but it is unclear how significant and lasting those contributions will prove to be.

Conclusion

I have argued that the realities of debt undermine the contemporary rhetoric of finance and financialization. This rhetoric reflects a paradigm that arose in the early-modern period but is contradicted by the reality and lived experience of financialized debt today. The question, then, is what it would mean to turn away from this rhetoric, rejecting its false optimism and emphasis on personal responsibility and risk.

One practical place to start is by changing how we currently treat debtors in default, specifically under existing bankruptcy law. In 2005, Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) in an explicit effort to reduce the purported misuse of bankruptcy provisions by irresponsible and unscrupulous debtors, i.e., those who file strategically in order to free themselves of debts they could otherwise repay. Indeed, US bankruptcy law had reached its most liberal point ever in the 10-year period before BAPCPA. Early American law had been modeled on British law and was designed only to assist creditors in recovering funds from delinquent debtors. By having a debtor declared bankrupt in court, creditors could gain access to his property and have him put in jail or even to death (Tabb, 1995). This exclusive emphasis on debt collection began to change in 1841, when Congress for the first time allowed for bankruptcy to result in the discharge of debts, though only for merchants. Very gradually, in fits and spurts, bankruptcy law was subsequently liberalized over the course of the nineteenth and twentieth centuries, almost always in the aftermath of economic and financial crises. Each time, the financial industry challenged that liberalization, including major reforms passed in 1994.

BAPCPA responded to this concern amidst heavy lobbying by credit card companies by tightening bankruptcy law to make it more difficult for debtors to file for a full discharge of debt [Chapter 7] (Scott, 2007). Proponents of this change argued that the law had been liberalized to the point that there was no longer a stigma associated with filing for full discharge, and many debtors should instead be allowed to file only for a partial discharge [Chapter 13] (Efrat, 2006; Sullivan et al., 2001). Non-commercial bankruptcy filings in the US had risen steadily during the preceding period, growing from under 500,000 annually in 1980 to over 2 million in 2005. The stated goal of BAPCPA was thus to reduce abusive (e.g., repeat and/or high-income filings) and fraudulent activity on the part of debtors (e.g., the concealment of assets). BAPCPA thus reflected the rhetoric of personal responsibility; debtors who file for bankruptcy are presumed to be looking for an easy way out of their own messes, and bankruptcy law was changed in an attempt to prevent them from taking unfair advantage of their creditors.

Evidence suggests that BAPCPA has been effective in reducing the number of non-commercial bankruptcy filings, of which there were fewer than 1 million in 2015 (ABI, 2016). And creditors are now recovering an average of 77% more money from those debtors who do file (Price and Dalton, 2007). The question, however, is whether this apparent success is due, as proponents claim, to decreases in abusive filing. On the contrary, the data shows instead that BAPCPA has made it considerably more expensive and difficult to file for personal bankruptcy, with the result that fewer borrowers attempt to file and even fewer are successful in their attempts (Littwin, 2011). And while creditors and investors have benefitted from BAPCPA, US debtors are increasingly insolvent and experience elevated foreclosure rates (Albanesi and Nosal, 2015). Moreover, this data is consistent with findings that directly contradict BAPCPA's purported rationale of reducing abuse of the law by debtors. Studies have repeatedly shown that the dramatic rise in bankruptcy filings between 1980 and 2005 was not caused by any significant decrease in the social stigma associated with bankruptcy, but rather by the enormous growth during that period of household debt levels (Sullivan et al., 2006). Middle and low-income debtors increasingly became unable to service the credit they had accepted, especially given flat and declining incomes.

Current bankruptcy law thus reflects the false rhetoric of finance and financialization, especially in its emphasis on personal responsibility, rather than the reality and lived experience of debt today. Bankruptcy, which might be expected to provide some relief to debtors, has been made significantly less accessible in recent years, especially to low income Americans, and this has had especially negative effects on their financial well-being (Albanesi and Nosal, 2015). Low and middle income borrowers have not only been aggressively encouraged to borrow at unprecedented levels, experienced stagnant income and job opportunities, and disproportionately borne the costs of the recent financial crisis; BAPCPA has also reduced their ability to receive relief from the debt that constrains their choices, now and in the future. Though repealing BAPCPA and further liberalizing debt discharge would not radically undermine the false rhetoric of finance and financialization, it would provide much-needed relief to many debtors today.

Notes

1. In the years preceding the 2008 financial crisis, investment banks also made large profits from engaging in speculation to their own benefit. See Abolafia (2010). At least some of this speculation has been curtailed by the Volcker Rule, Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.
2. Sadly, it also remains common today. An estimated 27 million people are enslaved in the world today, and most of them are debt slaves. See Bales (2012).
3. 91% of American adults have a credit report. See Ratcliffe et al. (2014).
4. The 1977 Fair Debt Collection Practices Act (FDCPA) does prohibit many (though not all) collectors from repeatedly contacting debtors for the purpose of annoying or harassing them. It also prohibits collectors from providing false or misleading information and from issuing threats or using obscene language. However, the FDCPA provides limited remedies for debtors who have been subject to such practices and, as recent data from the Consumer Financial Protection Bureau indicate, debt collectors appear to be regularly violating the law. See Jimenez (2015: 74-76).
5. See Wiersch (2014) and Student Loan Debt Statistics (2017). Student debt defies easy classification in the terms of the investment paradigm, a difficulty that is reflected in bankruptcy law. Such debts are often incurred as a kind of investment in one's future, but they are also in many cases incurred for the sake of increasing access to goods and services in the present.
6. However, recent research reveals that future discounting is often correlated with socio-economic conditions. Those who have recently experienced scarcity and/or instability tend, quite rationally, to prioritize presently available resources over potential but uncertain future rewards. This

suggests that Bentham's figure of the prodigal should, in many cases at least, be re-described as a person who borrows shortsightedly because the conditions of his or her life make shortsightedness appropriate. See Frankenhuis et al. (2016).

7. Though behavioral economics can suggest useful tweaks to public policy, it fundamentally relies, as McClanahan (2017: 25-27) has argued, on the mistaken assumption that economic outcomes result simply from the aggregation of individual choices. It thereby places the blame for poor outcomes, such as the financial crisis, on individual mistakes like bad decision making and over-exuberance, rather than looking to macroeconomic factors that structure the choices available to individuals.

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