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Human Capabilities and the Ethics of Debt

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Abstract

To live in human community is, in part, to owe debts to others and to be owed in return. How should we evaluate, normatively, the varied forms, practices, institutions, and relationships of debt? Which should be constrained and which accepted or encouraged? These questions have far-reaching implications given the pervasiveness of debt within human experience. This paper brings the resources of the capabilities approach developed by Amartya Sen and Martha Nussbaum to bear on normative assessments of debt. Our thesis is that the theoretical resources provided by this approach can help philosophers to examine the wide range of costs and benefits afforded by actual debts. We examine six contemporary examples of debt, arguing that the capabilities approach offers a nuanced and holistic framework for evaluating each. The framework is nuanced in that it provides resources for conducting fine-grained analyses of different cases and related policy proposals. It is holistic in that it takes into account more than a narrow range of either positive or negative considerations, instead encompassing the wide array of debt's bodily, cognitive, and social impacts upon individuals.

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Comments

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Abstract: To live in human community is, in part, to owe debts to others and to be owed in return. How should we evaluate, normatively, the varied forms, practices, institutions, and relationships of debt? Which should be constrained and which accepted or encouraged? These questions have far-reaching implications given the pervasiveness of debt within human experience. This paper brings the resources of the capabilities approach developed by Amartya Sen and Martha Nussbaum to bear on normative assessments of debt. Our thesis is that the theoretical resources provided by this approach can help philosophers to examine the wide range of costs and benefits afforded by actual debts. We examine six contemporary examples of debt, arguing that the capabilities approach offers a nuanced and holistic framework for evaluating each. The framework is nuanced in that it provides resources for conducting fine-grained analyses of different cases and related policy proposals. It is holistic in that it takes into account more than a narrow range of either positive or negative considerations, instead encompassing the wide array of debt's bodily, cognitive, and social impacts upon individuals.

Anthropologists have documented the diverse forms, practices, institutions, and relationships of debt in which human beings throughout the world are enmeshed.[1] To live in human community is, in part, to owe debts to others and to be owed in return. How should we evaluate, normatively, the varied forms, practices, institutions, and relationships of debt? Which should be constrained and which accepted or encouraged? These questions have far-reaching implications given the pervasiveness of debt within human experience.

The ethics of debt has, however, been neglected by many philosophers. Those who do address it focus primarily on the ethics of lending. Aristotle and Aquinas, for instance, argue that lending money at interest is fundamentally exploitative. Jeremy Bentham and Adam Smith, in contrast, argue that it should be encouraged so as to create economic opportunity and growth. Such thinkers identify some of the important normative questions raised by debt. Yet, they also fail to capture much of the ethical complexity of the myriad forms, practices, institutions, and relationships of debt. It is true, for example, that lending can be exploitative, but it is also true that access to credit can create opportunity

[1] See especially Graeber 2011 and Mauss 1990.

and enhance well-being. How can these considerations be incorporated into a more comprehensive approach to evaluating a wide variety of actual debts?

This paper brings the resources of the capabilities approach developed by Amartya Sen and Martha Nussbaum to bear on normative assessments of debt. Our thesis is that the theoretical resources provided by this approach can help philosophers to examine debt in a more holistic and nuanced manner. More specifically, we argue that the approach's emphasis on improving human lives by expanding and enhancing capabilities allows us to assess the wide range of costs and benefits provided by actual debts. Our discussion focuses on examples of financial debt, but we conclude by suggesting that the capabilities approach might also fruitfully be applied to illuminate the ethical dimensions of additional forms, practices, institutions, and relationships of debt.

Two Approaches to Lending

Philosophers have traditionally approached the topic of debt in two ways, both of which focus on the ethics of lending money at interest.[2] The first criticizes lending as an exploitative and unnatural activity. Plato, for instance, suggests that the business of lending is lowly and questions whether debts must always be repaid.[3] Aristotle elaborates, arguing that money lenders display the vice of meanness, since they love money for its own sake and will lend to anyone from whom they can profit, even the poor, without care for the borrower's well-being.[4] Moreover, he contends, there is something deeply unnatural about the business of lending money for profit. If money is essentially a medium of exchange, then those who lend money at interest undermine the productive economy by using money to generate more of itself.[5] Aquinas subsequently synthesizes these criticisms with prohibitions on

[2] For more on the history of philosophical thought about debt, see Padgett Walsh 2018 and Niewdana 2015.
[3] Plato 2000, 330-332; Plato 2016, Book V.
[4] Aristotle 1999, 1121b-1122a
[5] Aristotle 1990, 1133a; see also Douglas 2016.

lending that appear in Deuteronomy, Exodus, Ezekiel, Leviticus, and Psalms. Building on Aristotle, he argues that lending is a sin because it violates God's order and exploits others, especially the poor.[6]

Elements of this critical approach persist today in the form of critiques of financialized debt. Maurizio Lazzarato and Randy Martin, for instance, argue that the rise of persistent and widespread indebtedness, especially when debts are owed to impersonal corporations and investors, has undermined social bonds and distorted self-understandings.[7] Drawing upon Nietzsche's critique of debt as essentially a form of social control,[8] such thinkers criticize financialized debt by exposing the ways in which it deforms our lives together. Other critics focus on the exploitative effects of debt, especially on the poor. Ilsup Ahn and Richard Wolff, for instance, point to the inescapability of debt for many people today, arguing that this state of affairs primarily serves the interests of those who profit from lending, servicing, collecting, and investing in debt. And it is the poor who are especially harmed by indebtedness, argue researchers who focus on the harmful impacts to the poor of high interest loans, aggressive debt collections, and debts imposed by courts.[9] Some scholars argue for expanding bankruptcy protections or debt relief programs,[10] while others go so far as to argue that the harms of debt can only be remedied by instituting widespread debt jubilees or coordinated campaigns of debt refusal.[11]

In contrast, a second philosophical approach to lending has its roots in the early modern period. This approach regards lending not as exploitative and unnatural, but rather as potentially beneficial to borrowers as well as lenders. Bacon, for instance, argues for a loosening of constraints on lending, suggesting that biblical prohibitions merely reflect economic and political concerns from

6 Aquinas 1975, 2a2ae78
7 See also Dienst 2017, Kloeckner 2020, and McClanahan 2017.
8 See especially Nietzsche 1989, 57-73.
9 See especially Baradaran 2015, Halpern 2014, and Harris 2016.
10 See Hurd and Brubaker (forthcoming), Persad 2018, and Spooner 2019.
11 See Montgomerie 2019 and Ross 2014.

an earlier time that have since lost relevance.[12] Echoing this view, Grotius and Pufendorf focus on responding to the charge that lending is exploitative.[13] They argue that charging interest, even at high rates, merely provides legitimate compensation for the risks that lenders assume when they allow others to use their money. Lenders, moreover, provide an economically valuable service, one that meets market demands and creates opportunities for investment and growth. Bentham and Smith subsequently expand on this idea, emphasizing the potential for credit to provide financial opportunities to the poor especially, who are otherwise without means for investment.[14] They also defend lending by introducing a now-familiar distinction between debt for the purpose of investment and debt for the purpose of consumption. The harms suffered by debtors are not caused by exploitation, they argue, but rather by prodigality, i.e. by the debtor's own mistake of borrowing for the purpose of wasteful or unwise consumption.

This second approach thus responds to criticisms of lending by denying both the charge of exploitation and the charge of unnaturalness. Lenders charge interest as fair compensation for the services they provide, services which meet a market demand and contribute to economic growth. If some borrowers are harmed in the process, it is likely due to their own wastefulness and poor judgment. Today, the influence of this approach can clearly be observed in economic, political, and popular thought. The scholar William Goetzman, for instance, echoing Grotius and Pufendorf, argues that lending has funded the key developments of human civilization throughout the world. Meanwhile, financial advisors offer tools and advice to individuals hoping to avoid the prodigality that Bentham and Smith blamed for the apparent harms of debt. At a time when consumer spending, much of it fueled by debt, constitutes an ever-growing share of the U.S. economy,[15] this industry of advisors

[12] Bacon 1844, pp. 47-48
[13] See especially Grotius 1901, pp. 150-158 and Pufendorf 1729, p. 510.
[14] See especially Bentham 1818, p. 57 and Smith 1937, p. 333.
[15] See, for example, Duca et. al. 2016.

emphasizes strategies of judiciously using debt. And in the wake of the 2007 financial crisis, prominent economists and economic advisors, such as Ben Bernanke and Adair Turner, argued not for the forgiveness or repudiation of household debts that critics called for, but instead regulations to reduce the prevalence of riskier forms of debt. Our economic understanding and practices today thus strongly incorporate the modern idea that lenders generally provide a legitimate and useful service, and that it is the borrower's responsibility to use opportunities for credit wisely.

The Capabilities Approach

These two approaches offer starkly divergent perspectives on the ethics of lending, one largely negative and the other largely positive. How can the insights contained within each be synthesized? And how should we incorporate these insights into a more comprehensive approach to assessing the wide variety of actual forms, practices, institutions, and relationships of debt? The capabilities approach, we argue, offers a holistic and nuanced framework for understanding and evaluating debt that attends to the costs as well as the benefits of debt.

The capabilities approach is rooted in an awareness of the need to look beyond a narrow range of economic measures when evaluating social arrangements. Measures of income and economic growth, for instance, track some aspects of the quality of human lives, but they are incomplete on their own. To illustrate, Amartya Sen discusses racial disparities in life outcomes in the United States. Blacks in the U.S. have incomes that are higher, he notes, than many people in other parts of the world, but those higher incomes do not always translate into greater health or longer life expectancies.[16] A narrow focus on income and economic growth, Sen thus argues, can have the effect of eclipsing questions about well-being within large and diverse populations.

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[16] Sen 2001, pp. 21-24.

Instead of relying on economic measures to evaluate social arrangements, Sen proposes that we should ask more generally how well people are able to do and be what they reasonably value. We must, in other words, ask about their capabilities to achieve what Sen terms functionings, i.e. the various activities and states to which people reasonably attach worth. We can reasonably value, for instance, states of being nourished instead of hungry, healthy instead of sick, and literate instead of illiterate. We can also reasonably value activities such as democratic participation, social and community engagement, and meaningful work. Sen further notes that while some functionings are very basic to human well-being, such as safety and nutrition, others are highly complex, such as self-respect and social inclusion. But they all pertain to us in virtue of the sorts of beings we are, i.e. agents for whom being in certain sorts of states and doing certain sorts of things is desirable and worthwhile.

The capabilities approach thus focuses normative assessments on the real possibilities and constraints experienced by persons. As a result, it is well-suited to guide efforts to enhance the lives of people suffering from poverty or oppression. The approach emphasizes that efforts to promote development, rather than narrowly focusing on raising incomes and promoting economic growth, should never lose sight of the underlying goal of improving people's lives. It is essential that democratic systems be instituted and strengthened, famine and epidemics be prevented, women's agency be promoted, and human rights be respected, Sen emphasizes, in order to enhance capabilities in the developing world. The capabilities approach thus attends to varied impacts upon individual persons, rather than just aggregate economic effects. And it supports programs and policies that focus on providing the actual resources needed to improve the lives of different individuals in diverse circumstances. Economic development should be promoted in service of such efforts to enhance capabilities, rather than for its own sake, Sen concludes.

Although the capabilities approach was initially developed to address poverty and oppression, it can also be fruitfully extended to other domains. Yet, Sen is deliberately vague about which specific capabilities should be enhanced.[17] He describes the capabilities approach as procedural rather than substantive, meaning that it requires investigating the actual values of particular persons, i.e. what they actually wish to do and be. He thus intentionally leaves the capabilities approach incomplete, insisting that any identification and ranking of capabilities should come about through democratic deliberation. One way the approach might be made more complete, he does suggest, would be to pair it with a broadly Aristotelian account of human flourishing. Capabilities could then be identified and potentially even ranked based upon their contribution to the good life for a human being. Sen does not oppose such a pairing, but he regards it as unnecessarily constraining because the approach might also conceivably be paired with other methods of identifying and assigning relative weights to human functionings.

Martha Nussbaum, in contrast, adopts an explicitly Aristotelian framework in her work on capabilities. Such a framework, she argues, contributes clarity and determinacy to the capabilities approach. Situating the discussion of capabilities within a broader account of human flourishing enables her to propose a list of ten capabilities that are seemingly essential to human beings as such. We categorize these capabilities into three broad types: the bodily, the cognitive, and the social. **Bodily capabilities** pertain to functionings of our physical selves, including (1) life, (2) bodily health, and (3) bodily integrity. **Cognitive capabilities** pertain to our use of our minds, broadly speaking, including (4) senses, imagination, and thought, (5) emotions, and (6) practical reason. **Social capacities** pertain to navigating our lives within shared social spaces, and include (7) affiliation, (8) concern for other species, (9) play and leisure, and (10) control over one's environment. Nussbaum regards this list as open to revision and amendment, but insists that capabilities belong to individuals first, and only by their belonging to individuals do they apply to groups. By offering such a list, she provides specificity

[17] Sen 1993, pp. 47-8.

to the capabilities approach so that it can be applied to particular domains including, as we demonstrate in the following sections, the normative evaluation of debts.

Debt and Capabilities in the Developing World

It is our contention that the capabilities approach can fruitfully be used to assess a variety of forms, practices, institutions, and relationships of debt. We commence by considering two forms of debt that Sen mentions. The first is that of bonded labor, which is still widespread throughout the world, but especially in developing countries. The United Nations estimates that 21 million people are engaged in forced labor today, most commonly as debt slaves.[18] These individuals are forced to work in payment of putative debts, but typically with little hope of actually paying their debts because wages are kept too low. They are often subjected, in this vulnerable position, to violence and exploitation.

Debt bondage, as Sen observes, is clearly a state of restricted capabilities.[19] Debt slaves are often unable to acquire goods and services relevant to elementary bodily functionings, such as adequate nutrition and medical care. And their position entails that they are excluded from many complex cognitive and social human functionings such as education, political participation, and the ability to make decisions about the course of their own lives. Even a slave who is well-treated lacks access to many cognitive and social capabilities such as education and freedoms of expression, affiliation, and self-determination. Like all forms of slavery, debt bondage is thus abohorrent because of its inherent restrictions of the capabilities of the debtor.

This is true even when debt slaves initially consent to their bondage by, for instance, taking loans or advances. To see this, consider an example from U.S. history, namely that of indentured servitude. It might be individually rational for a person to enter into a contract by which they agree to

[18] United Nations Human Rights Commissioner 2016.
[19] Sen 2001, p. 30.

work for little or no pay for a set period of time in order to gain a benefit they would not otherwise be able to obtain, such as transportation to another continent. But such debt contracts are fundamentally exploitative, as the evolution of indentured servitude as an institution reveals. Many of the settlers in the colonies were indentured servants who contracted to work in return for passage across the Atlantic. But over the course of the 17th and 18th centuries, new laws increasingly limited the rights of the indentured and extended original contracts as punishments for various "infractions" (including, for women, giving birth). Indentured servants were left with fewer and fewer protections under the law, so that indentured servitude increasingly resembled the system of chattel slavery that ultimately replaced it as a labor source. Regardless of whether debt slaves initially consent to their bondage, such arrangements thus undermine capabilities by rendering individuals vulnerable to harm and exploitation.

A second form of debt discussed by Sen is that of public debt, especially in developing countries. Sen's own discussion focuses on odious debt, which is debt putatively owed by developing countries that was used primarily to enrich rulers or repress people. Ferdinand Marcos, for example, famously left the Philippines $26 billion in debt by the time of his ouster, but only after amassing over $10 billion in personal accounts. Such instances of odious debt raise pressing ethical and legal questions. However, it is our contention that the capabilities approach provides resources not only for addressing odious debt but also many other cases of public debt. This is because the approach directs us to attend to the effects of public debt upon the capabilities of a given population, rather than just whether that debt is odious as such. Public debt can, at times, enhance capabilities, as when a country borrows to defend itself, grow its economy, or provide services during an emergency. In such cases, the debt is used to enhance bodily, cognitive, and social functionings in so far as they are impacted by safety or economic considerations. In contrast, odious debt is, by definition, debt that has not been used primarily to enhance the capabilities of the population. Yet, a state's debt might fail to serve the public interest without thereby being odious.

Consider the case of Zimbabwe, which has an outstanding public debt of 75% of its GDP.[20] On the face of it, this number is not especially alarming, as it is lower than that of many countries, including the U.S., the U.K., France, and Japan. However, an examination of the effects of this debt upon the country's population tells a different story. For over 15 years, Zimbabwe has been in default on its public debt, with the result that virtually no creditors are now willing to lend to the country.[21] Lacking an adequate tax base and with little access to credit, Zimbabwe has been unable to invest in infrastructure and develop industries which might help it to address its crippling economic challenges. 70% of the population lives in poverty, and the country is plagued by cash shortages, corruption, high unemployment, and poor access to health services. The country cannot raise enough revenue to provide public services and invest in its own development. Nor can it pay back its debt, which would allow it to borrow for development purposes. The bodily, cognitive, and social capabilities of the country's population are thus diminished and held in that diminished state by its unserviceable debts.

Some portion of Zimbabwe's debt is clearly odious, but much of it is not. Zimbabwe was founded in 1980 after a long war to end white rule. The new country inherited debts that were taken out by the white government to buy weapons for its own side during the war, and those debts are seemingly odious. However, the country's debts also grew substantially in the following decades as it borrowed for development, and then took out further loans just to service existing debts. This ballooning debt failed to bring prosperity to Zimbabwe, but not because its leaders were simply stealing funds or using them to repress the population. Robert Mugabe, who ruled the country from 1980 until 2017, was indeed corrupt and repressive, but much of Zimbabwe's debt was used to pay

[20] Central Intelligence Agency 2020.
[21] Openshaw and Terry 2015.

for counter-productive political and economic programs. Some of these programs were initiated by Mugabe, but many were required by creditors, whose demands encompassed trade policies, spending restrictions, and market regulations that did not ultimately serve the interests of the public.

Calls to cancel odious debts as such fall short of adequately addressing challenges like those faced by Zimbabwe because much of its debt is not obviously odious. The capabilities approach would instead direct the international community to attend to the deleterious effects of public debt upon the population. Anahi Wiedenbrug's recent work on public debt repudiation is promising in this regard. She argues that public debt may be legitimately challenged whenever either of two conditions is met: first, it is systematically not used in the public interest; second, it interferes with the state's ability to serve the public interest. To put this point in terms of the capabilities approach, public debt may be legitimately challenged whenever it is systematically not used to enhance the capabilities of the public or it has the effect of significantly diminishing the public's capabilities. If embraced by the international community, such a proposal could have potentially far-reaching implications not only for Zimbabwe, but also for governments, as in the recent cases of Greece and Puerto Rico, forced by creditors to impose severe austerity measures during debt crises.

A third case that illustrates how the capabilities approach can be used to understand and evaluate debt is one discussed by Nussbaum, namely microcredit. As the term suggests, microcredit loans are small, usually $100 or less. They are targeted at people with low incomes who might otherwise have little access to traditional banking. Proponents of microcredit, including Muhammed Yunus, who shared the Nobel Peace Prize in 2006 with the microcredit bank he founded in Bangladesh, argue that it can be a powerful tool for reducing poverty and oppression. Microcredit enables people to invest in their own farms and small businesses, and it can make it possible for women specifically to gain an economic foothold otherwise denied to them. The promise of microcredit, then, is that it will enhance the capabilities of those who have otherwise been excluded from financial opportunities.

Embracing this promise, Nussbaum opens her book *Creating Capabilities* by reporting the experiences of a woman named Vasanti who fled domestic abuse in India. With the help of a microloan from a non-profit dedicated to helping vulnerable women, Nussbaum relates, Vasanti was able to avoid ending up on the street, which would be the fate of many women in her position. Instead, she was able to support herself and pay back her loans by sewing saris with machines she purchased for herself. And this success served, in terms of the capabilities approach, to enhance her cognitive and social well-being, as well as her bodily autonomy and health. She was no longer forced to choose between enduring domestic abuse or living on the streets, and her newfound independence led to her learning to read and write, engaging with politics, and forming friendships, all of which her husband had previously denied her.

Propelled in part by stories like these, microcredit has grown rapidly in the developing world, and especially in Southeast Asia. Between 2009 and 2018, the number of borrowers worldwide doubled to 140 million, 80% of whom are women.[22] A growing number of lenders, both for profit and not for profit, operate throughout the world, with a portfolio of over $124 billion in outstanding loans. However, in the wake of this rapid growth have followed criticisms of microcredit as failing to live up to its promise of reducing poverty and oppression, and these criticisms can usefully be framed in terms of the capabilities approach. Microloans certainly do enhance the capabilities of borrowers in some cases, but how often? Some evidence indicates that, overall, microcredit is not reliably an effective tool for alleviating poverty.[23] How often does it instead erode capabilities by saddling the poor with high levels of debt they struggle to repay?

[22] Convergences World Forum 2019.
[23] Roodman 2012.

One line of criticism focuses on crises of over-indebtedness that have arisen as a result of microlending. These crises have occurred in such diverse locations as the Nicaragua,[24] Morocco,[25] and Senegal,[26] but most famously in Andhra Pradesh, a large state in southern India with a population of almost 50 million that was once an epicenter of microlending. In 2010, however, Andhra Pradesh suspended microcredit operations after a wave of farmer suicides was linked to an unfolding crisis of skyrocketing default rates, especially amongst farmers. Some observers blamed the crisis on a rapid rise of for-profit lenders, citing poor lending standards, high interest rates, and aggressive collections. Others pointed to cuts to social programs, rising income volatility, and an unusually strong cultural pressure to repay, according to which those in default are broadly stigmatized and excluded from social life.[27] In any case, what the crisis did make clear is that, rather than improving lives, microcredit can have the effect of undermining capabilities on a large scale by generating over-indebtedness and thereby creating shame, social exclusion, increased economic vulnerability, and despair.

A second line of critique concerns the effects of microlending upon existing social structures. Nussbaum endorses microcredit's potential to disrupt oppressive relationships, practices, and institutions. But a growing body of evidence suggests that microcredit has a variety of complicated effects on social structures. More specifically, because microcredit borrowers are already poor, taking on debt can make them even more vulnerable to exploitation and abuse. Lamia Karim has shown, for instance, how some microlenders draw upon and even reinforce gender norms to shame female borrowers in Bangladesh, thereby rendering them vulnerable to further abuse and exploitation. And rather than alleviating poverty, Phillip Mader argues, microcredit sometimes merely financializes it, providing a new mechanism for wealthy interests to exploit the poor for profit.[28] Social hierarchies

[24] See Servet 2015.
[25] See Morvant-Roux and Roesch 2015.
[26] See Baumann et al. 2015.
[27] See Guerin et al. 2012.
[28] See also Christiaens 2018.

and local power relations then become stronger and more entrenched when local lenders use access to credit, repayment terms, and threat of collections as a means of manipulating debtors.[29] To put this point in terms of the capabilities approach, we might say that in such cases, microcredit borrowers end up with many of their social capabilities tied to their debt in ways that can ultimately serve to undermine those capabilities.

These criticisms reveal the need for nuanced analyses of microcredit and its effects on capabilities. Instead of regarding microcredit as a panacea for reducing poverty and oppression, we must evaluate its actual impacts upon bodily, cognitive, and social capabilities within specific locales, as shaped by specific power dynamics and social hierarchies. Consider, for example, the work of the Dvara Trust in India, whose mission is to promote financial inclusion without causing over-indebtedness.[30] Dvara researches specific financial stresses and financial needs within local populations, and promotes microfinance services such as agricultural insurance, which can alleviate the need for farmers to go into debt when yields are low. This is the nuanced kind of thinking about the complexities of microcredit that is called for by the capabilities approach. It stands as an example of research about debt that is attentive to the differing needs of diverse groups of people.

Debt and Capabilities in the U.S.

We turn now to consider how the capabilities approach might help us to better understand and evaluate debts not only in developing countries, but also in relatively more developed economies and democracies. In this section we draw upon Nussbaum's account of human capabilities to examine three additional forms of debt today: payday lending, student debt, and medical debt. We focus specifically on the U.S. context, where these three forms of debt raise serious ethical and policy

[29] See Picherit 2015.
[30] Dvara Trust 2020.

questions. In each case, we show how the capabilities approach can be used to frame normative assessment.

Before examining these specific forms of debt, however, it is useful to briefly consider the overall state of indebtedness in the U.S. today. Personal debt stands at a record high, exceeding $14 trillion.[31] The average American with a credit score now owes over $50,000, and the typical household now owes more than it earns in income each year.[32] These numbers are all up sharply from just 30 years ago, when average indebtedness, both in absolute terms and as a percentage of income, was significantly lower. One familiar way to assess this state of affairs is in terms of sustainability and growth. Are current debt loads sustainable in the near future?[33] Do they help or hinder economic growth?[34] Such questions focus on the aggregate impacts of personal debt on the economy.

The capabilities approach, however, directs us to also attend to the human side of debt and its impact on the lives of individuals, i.e. the wide range of costs and benefits experienced by those who are indebted. How has the rapid growth in personal debt served to enhance capabilities, and how has it diminished them?[35] How are the effects distributed? Recall Nussbaum's list of ten capabilities, which we grouped into three categories: the bodily, the cognitive, and the social. To determine how debt today impacts bodily capabilities, we must consider how medical debt, for instance, enables individuals to access health care, but also how being highly indebted can diminish health. To determine how debt impacts cognitive capabilities, we must consider how student debt, for example, facilitates access to higher education, but also how indebtedness can erode mental and emotional well-being. And to determine how debt impacts social capabilities, we must consider how payday loans, for example,

[31] Federal Reserve 2020a.
[32] Federal Reserve 2020b.
[33] See, for example, Cooper et al. 2016.
[34] See, for example, Mian et al. 2017.
[35] For a related approach, see Claassen 2017.

enable individuals to smooth consumption, but also how debts can constrain relationships and major life decisions.

Our first example from the U.S. is that of payday loans, which provide an expensive cash advance upon a future paycheck. Used primarily by the working poor, these loans are a close cousin of microcredit in that balances are relatively small and come with high interest rates. On an average initial loan of $375, borrowers will typically pay $520 in interest and fees (an APR of 391%).[36] That is because most payday borrowers, who make an average of $30,000 per year and typically use the loans to pay for recurring expenses like rent and utilities, are unable to repay the loans quickly. Most of the loans are made for the maximum amount available by law, and over half of all initial loans play out into a string of 10 or more loans because borrowers are repeatedly unable to pay off the balance.[37]

Does access to such loans enhance capabilities? Research shows that 12 million people in the U.S. take out payday loans each year, primarily for the purpose of smoothing their consumption in the short-term.[38] 'Consumption smoothing' describes the use of debt to acquire goods and services in the present and so to smooth over the ups and downs of access across a period of time. For instance, mortgages enable people to acquire property earlier in their lives than would be possible if they instead waited to save up enough cash. Such long-term consumption smoothing can increase capabilities by providing increased access to goods and services that are useful in the present. And the short-term consumption smoothing provided by payday loans can similarly be beneficial, as when one's car is broken and it must be fixed immediately so one does not lose one's job, or when groceries, school fees, or medical treatment are needed before the next payday.

Access to credit can thus enhance capabilities by smoothing consumption. However, with regard to payday loans specifically, research shows that borrowing is associated with reduced physical

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[36] Pew Research Center 2016.
[37] Consumer Financial Protection Bureau 2014.
[38] Pew Research Center 2016 and Pew Research Center 2012.

and cognitive capabilities. Those who take out the loans experience significantly poorer physical and sexual health, as well as heightened levels of anxiety.[39] Although the loans initially expand access to goods and services, they are subsequently associated with persistent default and becoming overdrawn on one's bank account.[40] At least in part as a result of this financial stress, payday borrowers are 38% more likely to self-assess their own health as poor or fair.[41] Moreover, many of these effects are at least partially caused by the loans themselves, rather than just the underlying stresses of poverty experienced by many payday borrowers. This is the finding of studies that compare households with access to the loans to those who, due to differing state regulations, do not have access. After controlling for income, education, and race, households with greater access to the loans experience poorer health, increased food insecurity, higher rates of substance abuse, and higher overall mortality compared to those without.[42]

Access to payday loans, then, often comes at a high cost for the working poor. The capabilities approach thus directs us to consider how greater regulation of the payday industry might improve the wellbeing of typical borrowers. One proposal for reducing the harms of payday lending would require payday lenders to verify the ability of borrowers to repay by, for example, running credit checks before issuing loans. This was the Consumer Financial Protection Bureau's 2017 proposal, which was aimed at reducing the financial distress and other negative outcomes associated with payday borrowing. A second proposal would be to make the provisions of the Military Lending Act apply to all borrowers. Under the law, the APR for loans to military members and their spouses cannot be higher than 36% (in contrast to the triple digit APR that is typical with payday loans). This cap was enacted in 2006 in order to protect servicemembers from predatory lending, and evidence suggests that it has had some

[39] Sweet et al. 2018.
[40] Gathergood et al. 2018.
[41] Eisenberg-Guyot et al. 2018.
[42] Hundley et al. 2018 and Chang 2019.

success. The Department of Defense estimates that the Act saves individual servicemembers an average of over $100 per year.[43] And by reducing the financial distress of servicemembers and the resulting costs of that distress, it saves the Department of Defense up to $133 million per year. If payday lending was more tightly regulated for all in the U.S., such evidence suggests, the capabilities of many more people could be enhanced.

A second U.S. example is that of student debt. Borrowing for higher education has skyrocketed in the past 20 years, both in terms of the number of borrowers and the average amount that they borrow. 70% of college students now take out loans to pay for their education, up from 50% 20 years ago.[44] And the total amount that they borrow has grown at more than twice the rate of inflation and is now, on average, almost $30,000.[45] As a result, total outstanding student loan debt has jumped to nearly $1.5 trillion, making it the largest form of personal debt in the U.S. after mortgages.[46]

The capabilities approach directs us to attend to the variety of costs and benefits experienced by individuals who borrow to pay for education. Student debt has traditionally been regarded as "good debt" in the sense that it is an investment in one's future. Like mortgage debt, the thought goes, borrowing for education enhances one's future well-being. This is especially relevant to students from disadvantaged backgrounds, for whom higher education can create opportunities for social mobility. And indeed, research shows that graduating from college is typically correlated with a cluster of positive outcomes that pertain to bodily, cognitive, and social capabilities. College graduates experience a significant wage premium; millennial graduates earn on average $25,000 more per year than those who did not attend college.[47] Graduates in recent years have thus, by the time they are 30, accumulated an average of over $13,000 more in wealth than those who did not attend.[48]

[43] Department of Defense 2015.
[44] Digest of Education Statistics 2018 and Urban Institute 2020.
[45] Institute for College Access and Success 2019.
[46] Sullivan et al. 2019 and Federal Reserve Bank of New York 2019.
[47] Pew Research Center 2019.
[48] Sullivan et al. 2019.

These economic benefits are associated with a variety of enhanced capabilities. Almost 70% of millennials attended college, compared to only 45% of baby boomers,[49] suggesting that access to loans has helped more students to experience the cognitive benefits conferred by higher education than ever before. College education also appears to enhance bodily and cognitive health. It is positively correlated with mental health,[50] as well as with bodily health and reduced mortality.[51] It is further associated with enhanced social capabilities in the form of increased family stability, social connections,[52] and career satisfaction.[53] And in at least some cases, borrowing for college seems essential to student success. Community college students who borrow have higher completion rates, apparently because borrowing reduces the need for employment while in school.[54]

However, there are also two significant problems concerning student debt today. First, the costs and benefits of college education are distributed far from equally amongst those who borrow. Data show that students of color and those from disadvantaged backgrounds face much greater challenges to repaying their debts when compared to their white and privileged counterparts. 20 years after college, the typical white student has repaid 94% of their student loans, while the typical black student has repaid only 5%.[55] And independent of race, first-generation students are much more likely to default on their loans.[56] These lower repayment rates in part reflect lower graduation rates for students of color and first-generation students,[57] who typically experience a greater need to work while in school, as well as more stress and less integration with the social and curricular aspects of college.[58] But they also reflect significantly lower post-graduation incomes for those students in those groups

[49] Pew Research Center 2019.
[50] Quesnel-Vallée and Taylor 2012.
[51] Buckles et al. 2016.
[52] Hout 2012.
[53] Oreopoulos and Salvanes 2011.
[54] Barr et al. 2019 and Dynarski 2019.
[55] Sullivan et al. 2019.
[56] U.S. Department of Education 2015.
[57] Shapiro, et al. 2018.
[58] Wilbur and Roscigno 2016.

due in part to the greater likelihood of their having attended for-profit schools,[59] but also to persistent racial and social wage gaps in labor markets.[60] Such students, many of whom borrow heavily to pay for an education they are less likely to complete, are often burdened with debts that must be repaid but little ability to do so.

As a result, the distribution of enhanced capabilities associated with higher education is highly skewed toward students who are white and from privileged backgrounds. Fewer health benefits are associated with the degree for black and hispanic graduates,[61] and black graduates experience higher rates of unemployment and underemployment.[62] Similarly, first-generation students experience significantly lower rates of wellbeing after graduating, especially amongst those with significant student debt burdens.[63] For borrowers of color and those from disadvantaged backgrounds, student debt is correlated with psychological distress, depression, poor mental health,[64] and lower life satisfaction.[65] When we thus examine more carefully how different student borrowers are affected by debt, we find a wide disparity in the costs and benefits. While college may be correlated with greatly enhanced capabilities for some, this is not typically true for those who, due to race or socio-economic status, stand most in need of the promised benefits.

A second problem is indicated by a growing body of research showing that many recent borrowers are now experiencing diminished capabilities as a result of carrying high debt loads. Graduating from college does boost the average wealth of young adults, but only for those who did not borrow to pay for their education. 30 year-olds who took on debt to go to college now have, on average, $8200 *less* wealth than those who did not go to college at all.[66] And this is especially true of

59 Libassi 2018 and Manzoni and Streib 2018.
60 Daly et al. 2017 and Manzoni and Streib 2018.
61 Kimbro, et al. 2008.
62 Jones and Schmitt 2014.
63 Cherney et al. 2019.
64 Walsemann et al. 2015.
65 Kim and Chatterjee 2018.
66 Sullivan et al. 2019.

black borrowers, who have accumulated even less wealth by age 30. Will these young adults nonetheless succeed in accumulating greater wealth later in life, by age 50 or 60? Perhaps, but the recent explosion in student borrowing makes it uncertain whether historical trends will continue to be predictive.[67] But even if today's student borrowers do ultimately fare better later on, the capabilities approach directs us to also examine the toll their early years of indebtedness takes on other aspects of their lives.

Consider that an unusually large percentage of those who recently borrowed for college are in financial distress. 10% of outstanding student debt is currently delinquent, approximately triple the current rate for mortgage delinquency, and higher even than the rate of mortgage delinquency of 8.5% at the peak of the financial crisis.[68] Such distress, research has shown, diminishes both mental and physical health. People with high debt loads generally experience poorer mental health and higher rates of depression.[69] And those experiencing financial distress caused by debt experience higher rates of depression, suicidal ideation, high blood pressure, ulcers, headaches, backaches, and work-place absenteeism.[70] More specifically, student borrowers struggling with repayment report increased insomnia, anxiety, and social isolation, amongst other effects, as a result of their financial distress.[71]

Such adverse effects are experienced even by student borrowers who are not delinquent. The increasingly widespread experience of beginning one's adult life heavily indebted, research shows, is taking a significant toll on the bodily, cognitive, and social capabilities of young adults. Student debt is correlated with psychological distress, depression, poor mental health, and lower life satisfaction in general.[72] It significantly delays young adults from forming their own households by renting or buying

[67] Elliott and Lewis 2015.
[68] Federal Reserve Bank of New York 2019 and Mayer et al. 2008.
[69] Hojman et al. 2016 and Zhang and Kim 2018.
[70] Choi 2009 and Turunen and Hiilamo 2014.
[71] Insler 2017.
[72] Walsemann et al. 2015 and Kim and Chatterjee 2018.

homes,[73] entering relationships and starting families,[74] purchasing cars, and saving for retirement.[75] It also prevents them from starting new businesses and contributes to the growing problem of the rural brain drain, which occurs in part because more and more recent graduates must take jobs far away from preferred locations near family in order to achieve an income sufficient to repay their loans.[76]

Overall, loans thus appear to have increased access to higher education, but at a great cost to many borrowers, and especially those of color and from less privileged backgrounds. The capabilities approach thus directs us to consider whether programs aimed at reducing student debt might improve the lives of such borrowers. Consider, for example, the Tennessee Promise, which makes community college free to most residents. Tennessee has increased college enrollment and graduation rates while simultaneously decreasing student borrowing by 25%.[77] This success indicates that similar proposals aimed at significantly reducing tuition and the resulting debt burdens for students at public institutions could have a positive effect on capabilities by reducing the negative impacts of debt while preserving access to higher education.

Our final example from the U.S. is that of medical debt. The capabilities approach directs us to consider how access to medical debt extends and improves the lives of Americans, but also how it diminishes their capabilities. Borrowing to pay for medical care has a positive effect on a person's capabilities when it enables them to receive needed treatment, and access to credit does enable many in the U.S. to purchase care that they might not otherwise be able to afford. Close to 30 million Americans still lack insurance,[78] and 25% of Americans must forgo medical treatment each year due

[73] Dettling and Hsu 2018.
[74] Addo et al. 2019, Haneman 2017, and Min and Taylor 2018.
[75] Herron 2015.
[76] Tabit and Winters 2019 and Ambrose et al. 2015.
[77] College Promise Campaign 2018 and Carruthers 2019.
[78] Tolbert et al. 2019.

to cost.[79] In this context, every year 1 in 8 Americans use debt to pay for care, collectively borrowing $88 billion dollars to cover medical expenses.[80]

Access to medical debt thus facilitates access to care, thereby enhancing bodily health, cognitive capabilities, and even social capabilities. However, the context in which this access is facilitated by debt also requires scrutiny. Medical debt is uncommon in countries that provide government sponsored health care, as well as in those that heavily regulate health care prices.[81] Research shows that quality and access to care remain high in such countries,[82] yet health costs cause far less financial distress and thus have less of a negative impact on capabilities. For instance, whereas 1 in 6 Americans *with* insurance experiences financial distress caused by health costs each year,[83] only 1 in 35 of Western Europeans overall experience such distress.[84] And research shows that the debt Americans take on to pay for medical care significantly diminishes their future capabilities. It has the compounding effects of preventing or delaying future care,[85] causing or contributing to bankruptcy,[86] increasing stress and anxiety, and straining relationships.[87] Like payday loans, medical debt thus increases access to services in the short term, but has detrimental effects on capabilities over the long term by undermining social, cognitive, and bodily capabilities. And, like student debt, medical debt's positive effects on capabilities are largely due to failures of regulation and public provision in the U.S. This suggests that regulating prices or expanding government provision of health care would likely have a significant positive effect on the capabilities of many in the U.S., at the very least by reducing the harms associated with medical debt.

79 Gallup 2019.
80 Gallup 2019.
81 The Commonwealth Fund 2020.
82 Sawyer and McDermott 2019.
83 Hamel et al. 2019.
84 World Health Organization 2019.
85 Hamel et al. 2019.
86 Hackney et al. 2016.
87 Hamel et al. 2019.

Conclusion

We have examined six contemporary examples of debt, arguing that the capabilities approach offers a nuanced and holistic framework for evaluating each. The framework is nuanced in that it provides resources for conducting fine-grained analyses of different cases and related policy proposals. It is holistic in that it takes into account more than a narrow range of either positive or negative considerations, instead encompassing the wide array of debt's bodily, cognitive, and social impacts upon individuals.

Our discussion has focused on financial debts, but the capabilities approach could also be fruitfully applied to debts that are not essentially financial. These include debts of gratitude, reciprocity, and reparation. What do we owe, as a matter of gratitude, to those, such as veterans and public servants but also caregivers, whose efforts support and enhance capabilities? What loyalty or assistance do community members owe to one another, as a matter of reciprocity, and what sanctions or punishments are owed to those who harm community members? What reparations are owed to descendants of slavery and institutionalized racism, or to the victims of climate change, now and in the future?[88] These seemingly disconnected questions all concern forms, practices, institutions, and relationships of debt, and in that crucial way they are all connected. The capabilities approach provides a comprehensive framework for addressing them as such and exploring intersections between them. And it does so in a way that emphasizes and attends to the nuances within each particular domain. As such, the capabilities approach offers a promising framework for understanding and assessing even debts that are not essentially financial.

[88] See, for example, Wolf 2008.

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