Regional

Expert: Reasons for debt partly cultural

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College Talk

Debt is not only part of the national political discourse but also a personal issue for many of us. Most people have some kind of debt – mortgage, credit cards, student loans – and it seems that the problem is only getting worse. But it was not always this way. The practice of lending money to ordinary consumers began less than 100 years ago.

"There is a sense that we have always borrowed, we have always lent money," said Louis Hyman, a participant in the 2013 Greater St. Louis Humanities Festival, hosted in part by Southern Illinois University Edwardsville. "That's one narrative that we tell ourselves and the other narrative we tell ourselves is that it only began very recently in the 1970s. My book explores both of those notions and talks about how the very nature of lending has changed over the last century." Hyman's book, "Debtor Nation," was published in 2011 by Princeton University Press.

Raised in Baltimore, Md., Hyman obtained a bachelor's degree in history and mathematics and a doctorate in American history from Harvard University. He is currently an assistant professor in the labor relations, law and history department of the ILR School at Cornell University.

According to Hyman, the extension of credit to consumers was the result of goods becoming available that would otherwise be unaffordable. Problems usually only develop, he said, when consumers lack a steady and reliable source of income.

"To really understand this development you need to look at the emergence of mainstreaming of the modern industrial economy, not just in terms of the production of goods like radios and cars that require large expenditures, but also the steady income, the salaries and paychecks that make it possible to lend money to workers in this way."

Photo courtesy of Louis Hyman

Louis Hyman

And when there's a large number of unemployed or underemployed people in the workforce, the problem becomes much more serious. But, of course, it was not always like this.

"After World War II and roughly into the 1970s, it's very clear that credit was a good thing," Hyman said. "That enabled all the things we associate with the post-war prosperity. People borrowed money to buy houses or buy a big fancy car."

An interesting, and to many an unknown, point in Hyman's book is that before the end of World War II, banks were actually reluctant to lend money to regular consumers. The book explores how consumer debt went from the margins of capitalism to the very center.

"The discovery comes during the Great Depression," Hyman said. "Our largest banks like Bank of America or National City Bank discovered that they were sitting on these large piles of money and they didn't know where to invest it to get a return. So the government stepped in and said, 'All right, let's start a program where you will lend to homeowners to improve their houses and you will also begin to lend money to homeowners for mortgages, long-term stable mortgages that will be insured, so if they default you won't lose any of your principal.' Through this government action, larger banks discovered that you could lend money to consumers."

For Hyman, there is no way to conceive of capitalism without having consumer debt. "Consumer debt has an important place within our economy," he said. One very revealing part of the book is the description that he makes about how people initially got into this pattern of borrowing money to buy big-ticket goods, but now people are using credit to cover basic necessities, from food to health care to education. The game changed in terms of our concept of debt.

"It's used to handle uncertainty; that's how debt is used today," Hyman said. "It is a perfectly reasonable way to borrow against your future income if you have a stable job. It is entirely a very disruptive way to handle uncertainty." Differences in how and when people borrow can be seen between different nationalities. One of the explanations as to why Americans borrow so much when compared to Europeans or the Japanese is cultural, Hyman said.

"These other countries have systems in place that if you get sick, you don't have to borrow money on a credit card to pay," he explained. "If you lose your job it is much easier to get unemployment benefits. All the kinds of uncertainties that exist in our society that we are forced to deal with as individuals are taken care of in these other societies. Here it's harder on individuals and it's also harder on corporations that have to act like mini welfare states."

The fact is that companies like General Motors have to worry about pensions and health care in the same way that whole nations do. Those nations' businesses then are liberated to do what they do best.

"So, one of the things I think we need to think about with all these health care reforms and unemployment reform is really thinking about it structurally," Hyman said. "What is it doing to our society in terms of making individuals responsible, because individuals are not able to handle the kind of complex society that we live in today."

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