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THE LOGIC OF NEO-LIBERALISM AND THE POLITICAL ECONOMY OF CONSUMER DEBT-LED GROWTH

1. INTRODUCTION

In 2004, US households owed 119 per cent of their disposable income, UK households 155 per cent and 108 per cent in Canada (Office for National Statistics 2004; Federal Reserve Bank 2004; Statistics Canada 2005). The outstanding totals of consumer credit has been calculated in the United States as $769 billion (Federal Reserve, 2003), in the United Kingdom £157 billion (Office for National Statistics, 2004), and in Canada $288 billion (Statistics Canada, 2003). The escalating level of consumer indebtedness in these three countries has not gone unnoticed. There have been many important contributions to understanding the causes of this recent trend of household over-indebtedness. These can be put in three broad categories: those who believe the cause is over-borrowing by consumers, those that see the cause as over-lending by banks, and those who claim it is low interest rates. For those that ascribe to the first claim, it is usually the case of the hedonistic consumer, the decline of thrift in society, or the magical effects of a plastic card that does not allow for restraint that has caused escalating debt levels. For those who accept the second claim, it is that relaxed banking regulations, aggressive marketing campaigns, and millions of mail outs that have led to increased debt for households. While the rest simply believe that consumers are acting as rational economic units and responding to the stimuli of low interest rates.

Beyond the explanations of a culture of self-indulgent consumers or avaricious bankers is the political economy of consumer credit. This approach attempts to explain how these phenomena interact with each other to form a co-continuative relationship of lending, borrowing, profit, and macroeconomic expansion. Thus, the specific purpose of this chapter is account for the rising level of consumer debt from 1991 to 1992 until the present day from a political economy perspective. Using the common credit card as a lens we can trace the historical changes that brought about the current frenzied lending and borrowing and explain what purpose consumer credit has come to serve in the ‘new

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economy'. This will allow a broader understanding of household borrowing that extends from the global governance of domestic macroeconomic policy to the most basic level of social and economic activity – the method of payment. Ultimately, it is argued that the consumer credit has become the lifeblood of most household consumption and macroeconomic expansion as a result of the neo-liberal strategy of non-inflationary growth.

The concept of neo-liberalism has a plethora of uses; it can be understood as a trend, a project, an ideology, or a particular phase of capitalist development. Here, neo-liberalism is considered a strategy of engagement with an established ideological standpoint and a tangible set of policy objectives that emerged in the mid-1970s as a response to the stagflationary crisis. The logic of neo-liberalism was to move the economy toward an investment based growth paradigm and maintain small sustained macroeconomic growth levels. This was meant to create a global economy based on continued prosperity with few business cycle fluctuations and less crises. This premise has evolved into a highly integrated and powerful set of state objective known as non-inflationary growth policies. Non-inflationary growth advocate the introduction of fiscal discipline, lower marginal tax, interest rate liberalization, competitive exchange rates, trade liberalization, and freeing of investment flows, privatization of government services and corporations, deregulation of labour markets, and long-term price stability.

This neo-liberal orthodoxy has come to pervade policy circles at all levels of business and government. Non-inflationary growth policies were internationally promoted through the G7 'nexus' (Gill, 1999) of ministerial meetings and associated policy channels, domestically implemented by participating member governments, and subsequently exported to developing countries under the auspice of the 'Washington Consensus'. It may be well known how neo-liberalism has informed the exercise of state power and the practice of global governance, but what is less obvious is how it has come to influence consumers. The governments in the United States, the United Kingdom, and Canada are isolated in this analysis because empirically they are identified as the countries with the most problematic levels of consumer indebtedness, and they form the consumer backbone of the global economy; moreover, they played a central role in the G7 in embracing and promoting non-inflationary growth principles. These countries were simultaneously trying to promote investment through the deregulation of investment flows and interest rate liberalization, while trying to stem inflation by withdrawing subsidies for unemployment, deregulating labour markets, and capping spending in the public sector. It is these governments' exclusive focus on stemming inflation that has led to slowed wage growth since 1991, it has affected wages directly through government labour contracts and labour market policy and indirectly through a consensus with business to keep wage inflation low. With household wages slowly eroding the response by households was debt-led consumption.

The central purpose of this chapter is to show how non-inflationary growth policies have caused households to rely on debt to fuel consumption. The concept of consumer debt-led growth is meant to draw out how the predominance of price stability caused a downward pressure on wages. This created a situation