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Risk, Competition and Credit Cards:
The Financialisation of Australian Households

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This work contains no material which has been accepted for the award of another degree or diploma in any university, and to the best of my knowledge and belief, this thesis contains no material previously published or written by another person except where due reference is made in the text of the thesis.
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INTRODUCTION

Australia has no Bear Sterns, no Countryside, no senate hearings of sly Goldman Sachs executives. The ‘lucky country’ is supposedly devoid of these ‘irrational exuberances’ that feature in US and global financial markets, far removed from the everyday needs and behaviours of Australian households which are only ephemerally threatened by these exogenous sources of volatility. To continue this line of thinking, we can be complacent with our high level of prudential supervision of the domestic financial system and the absence of spectacular downturns. These presumptions, however, have been a crucial factor contributing to the lack of critical research on financial developments in Australia. Domestically and internationally, critical political economy research in finance has focused on ‘global finance [which] holds a tight and somewhat suffocating grip on research agendas and, therefore on social scientists’ understandings of contemporary finance’ (Langley 2008a, 5). These critical political economy discourses frame global financial markets as ontologically distinct from the ‘real’ economy and households, conceptualising a ‘disembedding’ of financial markets (Best 2003, 364; Magdoff 2006; Bello et al. 2000b). Framing financial research through this dichotomy is limiting: financial developments are conceptualised as occurring ‘somewhere out there’ in a vacuum, which overlooks concurrent dynamic transformations in the everyday behaviours of households (Langley 2008a, 6). This thesis pursues this line of inquiry into the realm of ‘low finance’ in order to bridge the gap between these subjects of inquiry that are too often analytically separated – to conceptualise the growing interdependence between households and financial markets in an increasingly ‘financialised’ contemporary political economy.

The growing interdependencies between households and financial markets have only received limited critical attention, yet an analysis of the changing structural dynamic
between households and the financial system is essential to understand the nature of the contemporary financialised political economy (Langley 2008b, 140). Financial developments do not occur in a vacuum; nor are they simply predetermined profit models that are imported into local contexts. The recent developments and innovations of the financial system are dialectically ‘embedded’ in transformations in the everyday behaviours of households (Montgomerie 2008, 234). Transformations in household behaviour enable growth in the financial system; conversely, financial innovation and growth enables and stimulates transformations in the everyday behaviour of households. This thesis examines this evolving structural dynamic through the securitisation of Australian credit card debt, arguing that it is indicative of households ‘feeding into’ a circuitry flow of saving, investment and debt mediated and regulated by global financial markets. Moreover, through households ‘feeding into’ financial markets, the structural dynamic between the two is transformed, creating novel interdependencies between households and the financial system.

Securitisation refers to the process whereby formerly illiquid assets (in this case outstanding credit card accounts) are repackaged and combined into tradable commodities, called Certificates for Amortising Revolving Debt or CARDs (Black 2008). The first securitisation of credit card receivables occurred in 1987 and has since dramatically transformed the industry in the years since (FDIC 2007). Through the securitisation of their outstanding liabilities, households become providers of income streams that form the basis of financial securities that are then sold on international markets. These securities link the household to international markets in new and compelling ways, subjecting them directly to the modes of financial market calculation. Resulting from this direct linkage, is a significant epistemological shift whereby households are increasingly conceived as a set of calculable risk exposures akin to that of a firm (Bryan et al. 2009).

The issue of household debt is therefore not just about fixed interest rate mortgages – the model of household debt that characterised mortgages in the post-war period – but also mortgage-backed securities. Nor does it involve a simple analysis of
credit card debt that fails to understand the relation that this debt has with globally-traded securities using credit-card debt as their collateral. Moreover, via superannuation and other investments, involving *inter alia* the purchase of various securities, households become direct players in the ‘search for yield’ that drive competitive financial dynamics (Black 2008, 13). Through an examination of the securitisation of credit card debt, this thesis examines these connections between households and global financial markets that lie ‘behind’ the growth in Australian household debt.

**Dominant Perspectives on Australian Household Debt**

In the last two decades Australian household debt has more than tripled, from roughly 50% of average annual incomes in the early 1990s to almost 160% currently (RBA 2010e; Battellino 2010, 2). Dominant contemporary commentaries on rising household debt in Australia largely ignore issues of securitisation that lie ‘behind’ the growth in these liabilities, limiting their analysis to issues of the potential individual and systemic risks faced by households. Framing analysis of household debt in terms of risk illuminates the potential fragility associated with rising debt levels, but limits conceptualisations of the relationship between households and financial markets to a static continuum of more or less risk. This precludes an analysis of how these outstanding liabilities are indicative of a changing structural dynamic between households and financial markets. Chapter One, examines the limitations of these dominant commentaries on Australian household debt, namely orthodox and critical political economic analyses.
Firstly, orthodox commentators such as Kent et al (2007), Battellino (2010), and Ryan and Thompson (2007) frame analysis of rising household debt in terms of ‘what constitutes a sustainable level of indebtedness’ (Kent et al. 2007, 125). By framing analysis of household debt in terms of its sustainability, the analysis of debt is tied to an analysis of investment: household debt is considered to be ‘sustainable’ if it is used to finance asset purchases. Thus, orthodox analyses of household debt tend to conclude that households are responsibly taking on debt, as 86% percent of household borrowing is to fund the purchase of assets (housing); and approximately one third of this being for investment properties rather than residential housing (ABS 2009b, 38; Ryan & Thompson 2007). Moreover, while household debt may equal 157.3% of annual average incomes, household superannuation holdings total over 100% of GDP even after the severe drop during the recent US financial crisis (APRA 2009, 2; RBA 2010e). These orthodox analyses utilise household balance-sheets as the sole subject of analysis, weighing the relative composition of saving, investment and debt. This balance-sheet focus limits analysis to questions of whether or not households are at risk of defaulting on their individual liabilities, precluding an analysis of the significance of rising debt in terms of the changing structural role of households relative to the financial system.

These orthodox analyses are premised on the neo-classical assumption that free markets are more or less efficient through their tendency to gravitate toward equilibrium, reflective of the fundamental value of the asset or measure in question (Subrahmanyam 2009; Dodgson et al. 2009; Fama 1970; Fama 1991). Stemming from this is the presumption that crises are somewhat ephemeral and are caused by the otherwise ‘efficient’ and stable system being out of balance, potential crises are framed in terms of exogenous ‘adverse shocks’ – or, as the Reserve Bank of Australia’s (RBA) Financial System Assistant Governor Edey comments, a ‘financial disruption’ (2009; Kent et al. 2007, 126). This presumption informs orthodox analyses of potential systemic crisis, and issues of individual household indebtedness, leading to the assumption that, contingent
on the absence of exogenous ‘shocks’, household debt-financed investment is generally sustainable.

**Risk Shift Analyses**

The second dominant commentary on rising Australian household debt is one of a ‘risk shift’ onto households. This analysis highlights the trend toward Australians taking on increasing amounts of debt to supplement their investment and consumption habits, yet possessing a decreasing number of avenues by which to manage this risk (Quiggin 2008; Quiggin 2010). ‘Risk shift’ narratives describe the process whereby reduction in welfare state protections in the current era of ‘deregulation’ has subjected the livelihoods of households to volatile markets (Hacker 2006; Knights 1997; Rafferty & Yu 2010).

The ‘risk shift’ narrative has had much traction both domestically and internationally, especially in post-mortems of the US sub-prime crisis, and has brought the volatility and fragility of global financial markets into popular debate. Nevertheless, the ‘virtual analytical monopoly that crisis theory is exerting over the issue of financialisation’ has also led to the obfuscation of many more subtle, yet no less important, associated issues (Bryan et al. 2009, 460). Similarly to the orthodox analyses, the ‘risk shift’ analysis frames the significance of household debt in its relation to household investment, and the risks associated with the accumulation of these investments. Rapid rises in the level of household debt are predominantly associated with either issues of systemic fragility or opportunism by financial investors, lacking an in-depth analysis of the implications of these trends in terms of the trajectory of an increasingly financialised political economy.

Moreover, critical political economic discourses that focus on systemic crisis are prone to ontologically separate the spheres of the everyday household and disembedded ‘high finance’ (For instance, Bello et al. 2000b; Hacker 2006; Quiggin 2008). The former is somewhat romanticised as ‘real’ or ‘productive’, the latter is characterised as ‘speculative’ and ‘volatile’ (Aalbers 2008; Bello et al. 2000a; Sweezy 1995; Magdoff
As such, involvement in these ‘volatile’ markets can only accentuate the risks faced by households.

The ‘virtual analytical monopoly’ held by crisis theory, however, predominantly refers to critical political economy and popular discourses. Implications of the exponential growth in global financial markets in the post-Bretton Woods period have been extensively debated, such as their role in value creation (For instance, Nguyen & Faff 2002; Allayannis & Weston 2001; Arrighi 1994; Sweezy 1995; Magdoff 2006) or unequal distributive outcomes (For instance, Dos Santos 2009; Bello et al. 2000b), most of which this paper does not pose to enter into. These debates are often polarised, however, and occupy separate locales in academic and popular discussion, reaching different audiences with little interaction. While the crisis-centric ‘risk shift’ perspective may hold something of an analytical monopoly, this is only due to its discursive segregation from the aforementioned orthodox analyses put forward by bodies such as the RBA and the Australian Securities and Investments Commission (ASIC). Analyses that conceptualise endogenous crises or systemic contradictions in the political economy occupy a distinct conceptual and discursive locale. Australian debates surrounding the significance of rising household debt levels are indicative of this polarisation, and this paper seeks to fill the gap left by the polarised existing literature.

Limitations

What these perspectives miss is the significant transformation in the interaction of households and international financial markets. The issue of whether households are (or are not) facing insolvency is indeed an important issue, but so too is the matter of how households ‘feed into’ global finance – especially given Australia’s low mortgage arrears rate of 0.7% (Battellino 2010, 5). Households are not just ‘borrowers’ (and perhaps excessive borrowers). They are not just ‘investors’ (and perhaps injudicious investors). They are also the providers of income streams that form the basis of financial securities: securities that are sold into international markets and hence link households into international markets in new and compelling ways.
As opposed to a connection intermediated by deposit taking institutions or managed funds, the *direct* linkage of households and financial markets creates novel interdependencies between the two. The role of households is not simply in the provision of labour, or the stimulation of demand through their consumption patterns: rather, household behaviours are transformed into the basis for financial growth and innovation. Through their debt, households are subjected directly to the modes of calculation and discipline of international financial markets. Moreover, due to their increased investment portfolios, households are becoming dependent on the rising nominal asset prices generated by financial markets. Purchase of these assets is also facilitated by the unprecedented expansion of consumer credit which is enabled by financial innovations, such as through securitisation. Much of critical economic discourses envision a gradual ‘disembedding’ of financial markets. In contrast this thesis argues that the structural dynamic between households and the financial system is being transformed from an intermediated and disembedded relationship to one in which the everyday behaviours of households are intricately connected to, and interdependent with the operation of increasingly *embedded* global financial markets.

**Existing Literature on ‘Financialisation’**

The relationship between households and financial markets that lie ‘behind’ these issues of household debt has received limited yet growing attention – the most notable coming from the ‘financialisation’ cluster of research. This cluster is far from homogeneous, however, and is comprised of a variety of distinct yet often overlapping perspectives. Broadly, the financialisation literature ‘offers an account of present day capitalist dynamics where individuals, firms and the macro-economy are increasingly mediated by new relationships with financial markets’ (Montgomerie 2008, 234).

‘Regulationist’ financialisation theorists approach the analysis from an International Political Economy (IPE) perspective. They attempt to delineate an epochal
shift or ‘new era’ signalled by the growth in financial markets over the period since the dismantling of the Bretton Woods agreement (Boyer 2000; Aglietta & Breton 2001; Arrighi 1994; Krippner 2005). The regulationists have thus focused on accumulation patterns being increasingly dominated by the financial sector, termed ‘finance-dominated capitalism’ (Hein & Truger 2010, 2), a ‘finance-led growth regime’ (Boyer 2000, 111), or finance as being ‘the nexus of the new economy’ (Aglietta & Breton 2001, 435). The regulationists consider how this ‘financialisation’ might thus signal a new coherency in capital accumulation, albeit with intensified endogenous contradictions (Krippner 2005). Other foci have centred on the exploitative effects of the dominance of financial markets (Dos Santos 2009; Lapavitsas 2009a), the growth of financial enterprises (Duménil & Lévy 2004), labour market transformations (Rafferty & Yu 2010), spatial aspects of financialisation (French et al. Forthcoming), and ‘financial deepening’ – the growth, integration and increased efficiency of financial markets (Breger 2007, 57). Alternatively, research on financialisation by the so-called ‘social accountants’ has conceptualised financialisation as a process or trajectory toward ‘financial markets [as] key determinants of the behaviours of economic actors and the trajectory of capitalism’ (Erturk et al. 2005, 7; Fine 2010).

The regulationist IPE’s focus on the power of global financial markets, and the social accountants’ focus on the spread of financialised motives and behaviours are ‘essentially ... different sides of the same critical coin’ (Montgomerie 2008, 234). This paper focuses on this latter aspect of ‘financialisation’, the increasing salience of financial motives in the determination of the behaviours of diverse economic actors. Relative to the global finance orientated IPE research, research on financialisation as the spread of financial motives and modes of calculus has received far less critical attention, and mostly being in regards to the behaviour of firms and states. Analysis of the role of the household in this process is still in its infancy, and it is developing the research into the relationship between financialisation and households which constitutes the focus of this paper (Langley 2008b).
Within this ‘financialisation’ discourse, two dominant approaches have been taken in theorising the household’s relationship with financial markets: the ‘governmentality’ approach (Langley 2007) and the ‘coupon pool’ approach (Froud et al. 2001). The ‘governmentality’ approach conceptualises the contradictory situation of households that are increasing pushed to accumulate an asset portfolio and exercise ‘financial self-discipline’, yet face increasing barriers to do so (Langley 2007; Knights 1997). These ‘uncertain subjects’ are pushed into accumulating asset portfolios and held responsible for the management of these assets through disciplinary practices (Langley 2007, 68). Furthermore, in a complementary process, this ‘push’ is accompanied with discourses of empowerment, freedom and choice whereby finance ‘presents itself . . . as a means for the acquisition of the self . . . a proposal for how to get ahead’ (Martin 2002, 3). Households are faced with an ‘invitation to live by finance’ through a model of asset accumulation and responsible financial management (Martin 2002, 3; Langley 2007; Knights 1997; Konings 2009).

Alternatively, through ‘coupon pool’ approach the household is conceptualised as comprising part of a circuitry process, whereby flows of saving and investment between households and the productive economy are mediated by capital markets (Froud et al. 2001). In the ‘productionist’ era of capitalism, this was an ‘unproblematic’ relationship – with retail banking having one-to-one relationships between retail banks and households, and capital markets allocating resources and facilitating value creations (Froud et al. 2001, 275). In the ‘coupon pool’ era of capitalism, however, the rapid increases in household investments, saving and debt directly held by institutional investment funds has promoted the mere mediatory position of capital markets to one of regulation – the regulation of the behaviours of both households and productive enterprises and the macro economy’s trajectory more generally (Froud et al. 2001). In contrast to the regulationist perspective’s emphasis on the restoration of coherency and potential longevity, the coupon pool approach emphasises the intensification of contradiction and volatility (Froud et al. 2001). The governmentality and coupon pool approaches are somewhat
complementary and this paper takes up these perspectives in conceptualising how households ‘feed into’ financial markets, but also how they are reflexively scrutinised by these markets on the basis of these flows.

A major distinction between the governmentality and coupon pool approaches, however, is the relative emphasis on the financial market’s discipline of households. Langley (2009), for instance, takes up this theme of financial scrutiny through legal means in the US. Individuals who fail to pay loans are ‘morally condemned’ and excluded through financial penalties, reduced credit limits or indictments of their credit history precluding future borrowing (Langley 2009, 281). So far this is somewhat specific to the US (at least currently); arrears rates and credit card debt defaults have been comparatively minimal in Australia (Battellino 2010; RBA 2010d). As such, this paper focuses on the scrutiny applied to household behaviours in Australia rather than the disciplinary aspects emphasised by governmentality theorists. This scrutiny is, however, a necessity for the mass extension of credit and the secondary trading of these income streams and functions as a ‘discipline’ – but a discipline on the performance of these accounts rather than on the individuals themselves.

**The Financialisation of Australian Credit Card Debt**

This paper does not propose to address the disciplinary power of global financial markets on the behaviour of individuals (which has received much attention) (For instance, Bello et al. 2000a; Magdoff 2006). There are of course power relations inherent in the intertwining of households and the financial system, however, through a focus on household consumption, this paper emphasises the expansive process of the financialisation of households through seemingly disconnected ‘non-financial’ behaviours. Through this consumption focus, this paper highlights that, in addition to active participation in the financial system through their saving and investment practices, households are becoming intertwined in the inner workings of financial markets without consciously choosing whether or not to do so.
The work of Bryan and Rafferty (2006) is drawn on to build a conceptual framework to understand the process of scrutiny and how it is manifest through the securitisation of credit card receivables. Securitisation is understood as a process that enables the commensuration of diverse asset types through a universal measure of value (Bryan & Rafferty 2006). The process of commensurating values is far from completely novel; money superficially performs a similar role. What is novel, however, is the manner in which this is done – as the evaluation of a specific asset’s risk exposure relative to its potential return on investment becomes a highly liquid commodity. The evaluation of assets in terms of their perceived value is one thing, but the evaluation of assets and exposures in terms of their role in value accumulation – their expected risk adjusted return on investment over time – is a significant development. Securitisation embodies a particular epistemology whereby diverse value forms and actions (including household balance-sheets and behaviours) are conceived as calculable ‘exposures’, facilitating their commensuration which precipitates new dimensions in capitalistic competition and discipline (Bryan & Rafferty 2006). These arguments will be developed over the course of this paper, and rest on an understanding of the increasingly complex securitisation process.

In short, this paper argues that existing discourses on the rising level of household debt in Australia are inadequate to explain the significance of this debt in the context of rapid financial innovation. Once an understanding of securitisation techniques is developed, the significance of normalised consumer credit is important in its own right, not just in its linkage to whether or not it indicates potential systemic crises. Households are becoming increasingly intertwined with global financial markets through the provision of many of the assets and income streams on which these markets operate, signalling a growing interdependence between the functioning of households and financial markets. With this comes an increasing scrutiny of individual behaviours, characteristics and risk exposures.
Through these arguments, this paper advances the current literature in two distinct ways. Firstly, for the most part financialisation theorists (as with Australian commentaries on household debt) have almost exclusively focused on changes in the saving and investment behaviours of households, with consumption being somewhat of a side issue (Langley 2008b). As Montgomerie (2006, 301) highlights, ‘consumer credit has been largely considered just another financial service that ballooned after rounds of deregulation’. Through the examination of credit card debt, this paper deepens the research into how households are becoming intertwined with financial markets through their seemingly disconnected consumption behaviours – rather than their saving and investment activity – and explains how this involvement subjects households to a logic of financial market calculus: that through the securitisation process, households are increasingly treated similarly to a firm, as a set of calculable exposures (Bryan et al. 2009).

Moreover, analysis of household credit card debt-financed consumption provides a unique and revealing problematic with which to conceptualise the growing interdependencies between households and financial markets. Analyses of household debt are tied up with an analysis of household investments. For orthodox theorists, this linkage then leads into discourses on the ‘rational individual’ accumulating debt as well as assets, and as such, of how and why this debt is manageable. Alternatively, for critical political economists the rising level household debt is quickly associated with systemic crises. Although this is an important and revealing area of analysis, it can be somewhat limiting in the potential range of issues to be examined (Montgomerie 2009).

In contrast, credit card debt represents a more straightforward issue, devoid of the connection to asset purchases. Of course, there is some evidence of households experiencing mortgage stress using credit cards to meet mortgage re-payments, so mortgage debt and credit card debt cannot be entirely be divorced (Kent et al. 2007). Analytically, however, there is an important distinction. Credit card debt is debt-financed consumption, largely distinct from debt taken on to finance investment (VISA 2006). Following its path to securitization and global financial markets is thereby (relatively)
unimpeded analytically. The growing level of credit card debt thus provides a unique problematic that allows a more straightforward analysis of the *qualitative* changes in the structural dynamic between households and financial markets, rather than just a *quantitative* analysis of more or less household risk exposures along a linear continuum.

Secondly, through the analysis of Australian credit card debt this paper deepens the current research on the financialisation of household behaviours, more specifically; this paper deepens our understanding of how these processes are manifest in Australia. The current critical literature on financialisation (and indeed on the social aspects of finance or financial innovation) is almost entirely focused on the North Atlantic. These works see the UK and US as the ‘locus of change’, with the periphery (including Australia) being somewhat passive recipients of these developments (Froud et al. 2001, 277; Erturk et al. 2005). This may be justified in terms of the specific invention of financial instruments, but it is argued here that the process of financialisation is not a unilateral ‘top down’ process that is simply imposed on unwitting subjects. It is instead a reflexive process contingent on domestic cultural, political and economic transformations. This financialisation is a dialectical transformation resulting in finance being ‘increasingly embedded in contemporary social, political and economic life’ (Montgomerie 2008, 234).

**Paper Structure**

Chapter One examines the dominant contemporary commentaries on rising Australian household debt, namely orthodox, ‘risk shifting’ and ‘wealth effect’ discourses. With the exception of post-Keynesian analysis of the ‘wealth effect’, each of these commentaries frames issues of household debt in terms of the household’s relative balance of total assets, liabilities and debt. The analysis of debt is limited to an analysis of assets, leading to conclusions of whether households face individual or systemic risks, or both. In opposition to orthodox and critical political economic discourses, which ontologically separate households from the financial system, this chapter argues that it is more useful to disaggregate ‘household debt’ to focus on household *consumption* –
thereby enabling an analysis of how households ‘feed into’ the financial system without being entangled in issues of individual and systemic crises.

Chapter Two examines the securitisation process and argues that (in contrast to conventional understandings by both orthodox and critical political economic discourses) the significant underlying process is the linking of diverse value forms. Drawing on the work of Bryan, Martin and Rafferty (2006) this chapter builds a novel conceptualisation of the securitisation process which transforms formerly illiquid value forms into highly liquid commodities. Through this linkage, an increasingly diverse range of behaviours and exposures are being brought into a system of competitive financial evaluation through the trading of their associated securities.

Chapter Three applies the conceptualisation of the securitisation process examined in Chapter Two to the Australian credit card market. While the advent of securitisation techniques did not simply create rising credit card debt, it has underpinned the recent expansion and profitability in the provision of this debt. Moreover, the securitisation of credit card debt has transformed the significance of these debts as they are now not just one-to-one relationships between the account-holder and the lender, but income streams that underpin globally traded commodities. Through this, however, household behaviours are brought under the competitive scrutiny of financial markets through the trading of these credit card securities. In other words, the process of the securitisation of credit card receivables is increasingly evaluating and classing the behaviours of households along the logic of financial calculus – that through the securitisation process, households are conceived of as units of capital.

This paper thus argues that existing perspectives which ontologically separate finance from households must be rethought to meaningfully conceptualise the increasing interdependencies between households and financial markets. Through this re-conceptualisation, this paper argues that critical political economic discourses which advocate the ‘regulation’ of speculative financial markets fail to adequately understand the embedded nature of these processes within the contemporary Australian political
economy: that they cannot be simply ‘skimmed off the top’, such as through a ‘Tobin Tax’ on speculative financial transactions. The growth and innovative practices of the contemporary financial system are integral to the current model of capital accumulation, household wealth creation and cultural transformations. As such, arguments against the ongoing growth and innovation of the ‘speculative’ or ‘volatile’ financial system must address the deeply embedded social and economic transformation that is the financialisation of the contemporary political economy.
CHAPTER ONE

The Limitations of Dominant Contemporary Perspectives on Australian Household Debt

This chapter examines the dominant contemporary perspectives on growing Australian household debt levels and how these perspectives conceptualise the dynamic between households and the financial system. Reflective of international commentaries, Australian perspectives on the significance of rising household debt levels have been largely polarised into two main groups, namely, orthodox and critical political economic discourses. Orthodox analyses focus purely on the composition of household balance-sheets, weighing households’ relative total assets and liabilities and, in regards to Australia, arrive at the conclusion that, due to the large proportion of debt taken on to finance asset purchases, households are well placed to service these liabilities. The exclusive focus of the orthodox narrative on household balance-sheets limits the scope of their analysis to questions of what constitutes a ‘sustainable level of indebtedness’ in terms of the amount of household debt relative to household investments (Kent et al. 2007, 125).

The second dominant perspective on rising household debt are critical political economic analyses which historically contextualise rising debt levels – identifying increasing pressures on households to accumulate assets in order to protect against future risks. Moreover, the critical political economic analyses highlight that even if they are able to service their liabilities, households continue to face individual and systemic risks – the so-called ‘risk shift’ onto households. Similarly to orthodox perspectives, the ‘risk shift’ analysis frames the significance of household debt only in its relevance to household investment through the focus on asset accumulation.

By framing household debt as only significant in its relation to household investment, contemporary perspectives on rising Australian household debt are limited to
an analysis as to whether or not households are at risk of individuals defaulting, or whether or not rising aggregate household debt is ominous of systemic crises. Analyses of household debt becomes centred on quantative changes in the position of the household in terms of more or fewer risks, but miss the key structural question which involves the changing qualitative dynamic between households and financial markets beyond simply the level of debt or asset exposure.

Whether or not households are at risk of defaulting on their mounting liabilities, or are facing systemic crises are indeed important questions – but more crucially, is the question of what these mounting liabilities reveal about the qualitative changes in the role of households in the current economic system. The post-Keynesian analysis of the ‘wealth effect’ (examined in the third section) provides a starting point for an analysis of debt in its own right – that change in the level of household debt is a key driver of demand in the contemporary Australian economy. To conceptualise the changing structural dynamic between households and the financial system, this paper argues that it is more useful to disaggregate ‘household debt’ and to examine the changing debt-financed consumption patterns of households.

An analysis of household consumption is developed in Chapter Three through an examination of normalised Australian credit card debt and how this relates to financial market developments. As credit card debt is predominantly used to finance consumption, it cannot be subsumed under a discourse of the ‘responsible investor’ (Bertola & Hochguertel 2007; VISA 2006). Furthermore, as Australian credit card debt only comprises approximately 5% of total household debt and has very low arrears rates of around 1%, this debt is relatively insignificant in terms of systemic fragility and individual bankruptcy (ABS 2009a; KPMG 2001; RBA 2010a; RBA 2010d). Instead, the widespread normalisation of debt-financed consumption is a distinct and revealing problematic, enabling a conceptualisation of the growing interdependency between households and financial markets beyond a linear ‘risk shift’. The normalisation of household credit card debt is revealing of a qualitative change in the structural dynamic between households and financial markets; toward a dynamic whereby households are
increasingly treated as set of ‘risk exposures’ that have the potential to form globally traded commodities.

With the exception of the ‘wealth effect’ analysis, the orthodox and critical political economy analyses of household debt are indicative of popular conceptualisations of the relationship between households and financial markets, in that they are in some sense ontologically separate. Moreover, in critical political economic discourses this separation is antagonistic with households being characterised as ‘stable’, and financial markets characterised simply as sources of volatility. It is therefore argued that the orthodox and critical political economic discourses on Australian household debt are inadequate, and it is thus necessary to move beyond these dichotomised perspectives to conceptualise households as being part of a circuitry flow of saving, investment and debt flows which form interdependencies with the financial system – not simply facing more or less risk exposures along a linear continuum. This chapter develops this argument in three sections; the first two examine orthodox and risk shift discourses on Australian household debt respectively, and the third section examines orthodox and post-Keynesian perspectives on the wealth effect.

**Orthodox Perspectives on Household Debt**

With the average Australian household owing over $128,000 in 2005-06, a 27% increase since 2003-04, the first concern raised is whether or not this dramatic rise in Australian household debt is sustainable for these individual households in terms of their ability to repay these liabilities (ABS 2009b, 32). This section outlines the recent growth in household indebtedness and the orthodox analyses of this growth by commentators such as the RBA, which frame household debt in a very particular way. Households are conceptualised as rational economic actors that take on and manage debt in much the same way as firms in order to smooth their consumption patterns and facilitate productive investment (Kent et al. 2007). Through the orthodox perspective then, any deviation from this rational behaviour is ‘special case’ (Dodgson et al. 2009, 7). This
framing limits orthodox analyses to the question of whether or not the empirical data supports their presumption of households as responsibly taking on debt to finance asset purchases, precluding an analysis of what this increasing indebtedness might indicate about the changing structural role of the household in the political economy.

Average household debt increased by 14% per annum over the period from 1993 to 2007, relative to only 6% growth per annum in household disposable incomes, resulting in massive increases in the total level of household debt to disposable income ratio, which grew from approximately 50% in the early 1990s to roughly 160% in 2007 (see Figure 1.1) (Ryan & Thompson 2007, 40). This growing indebtedness has led to interest repayments on mortgages reaching 12% of annual disposable income (Davies 2009, 24). The growth in Australian household indebtedness has even outpaced the rates of US households (Debelle 2008). In the wake of the recent US sub-prime crisis, which stemmed from individual mortgage defaults, concerns have been raised that the level of Australian household indebtedness is unsustainable for individual households in terms of the repayment of these loans (Filardo 2009; Battellino 2010; Gardner 2009; Debelle 2008).

Figure 1.1 – Growth in Australian Household Debt to Income Ratio, 1977-2009 (RBA 2010e)
The recent data indicates, however, that the ratio of household indebtedness relative to household income correlates strongly, suggesting that those households most able to service debt are taking on the most debt (see Figure 1.2) (Battellino 2010; ABS 2009b). Furthermore, recent Australian interest rates have remained historically low which has assisted borrowers in repaying debts (RFI 2009).

Moreover, for the most part households are not taking on debt for immediate consumption, as much of this debt has been taken on in the purchasing of assets. Most prominently, mortgages comprise approximately 86% of household debt, including both owner occupied housing (67%) and investment housing purchases (27%) (Ryan & Thompson 2007, 41; ABS 2009b, 21). Australians are spending increasing amounts on housing purchases with average house prices growing from 350% of annual disposable income in mid-1990s to a peak of 650% in 2003 (Ryan & Thompson 2007, 42). Rising house prices have stimulated growth in the average size of mortgages to over $379,000 in September 2009 (rising by 20% since 2007) and have underpinned the rise in total

![Figure 1.2 – Owner-Occupied Debt, Debt Held by Households, 2010 (Battellino 2010)](graph.png)
household asset holdings – growing at 10% per annum from 500% to 800% of average annual disposable income since the mid-1990s (see Figure 1.3) (Ryan & Thompson 2007, 42; AFG 2008; AFG 2009). This is indicative of the so-called ‘wealth effect’ (which will be examined further the third section).

The consistent growth in household indebtedness has outpaced the growth in household asset holdings, meaning Australian households are becoming more ‘geared’: the ratio of total debt-to-assets. Despite this increased gearing, however, Australian households’ debt-to-assets ratio is still comparable to international standards, despite having doubled to 19% since 1991 (see Figure 1.4) (Davies 2009, 19; ABS 2009b; RBA 2010d).
The comparatively low level of household gearing, combined with the comparatively low Australian arrears rates (accounts that are behind on at least one month of debt repayments) of 0.6% compared to 8% in the US, has led Australian regulatory bodies to suggest that there is no major disparity between households’ level of indebtedness and their ability to service this debt (Joye 2010; Battellino 2010; Davies 2009). As the RBA concluded in its Financial Stability Review (2010c, 45), ‘in general, households appear well placed to meet their debt repayments’.

The RBA’s conclusion, however, is based on the logic that concerns with increasing household indebtedness (including all forms of debt) can be offset by corresponding rises in household asset holdings. This logic assumes that the particular types of debt – and the particular types of assets held by households – are relatively insignificant: it is the overall level of debt-to-asset ratio that is important. As long as the debt-to-asset ratio remains ‘low’, the level of household indebtedness is insignificant as a low ratio signifies that a large proportion of this debt is taken on to invest in assets. As households are investing in assets (predominantly through mortgages) the future return

\[\text{Household Debt to Household Assets (¢)}\]

\[\begin{align*}
\text{Quarter} & \quad \text{Household Debt to Household Assets (¢)} \\
1990 & \quad 10 \\
1992 & \quad 15 \\
1994 & \quad 20 \\
1996 & \quad 25 \\
1998 & \quad 30 \\
2000 & \quad 35 \\
2002 & \quad 40 \\
2004 & \quad 45 \\
2006 & \quad 50 \\
2008 & \quad 55 \\
\end{align*}\]

Note: (a) Levels of household debt have been adjusted for breaks in the series (the establishment of new banks and other changes in reporting arrangements) (b) Assets include financial assets of unincorporated enterprises and non-profit institutions serving households
on these investments will assist the paying down of debt in the future – indicative of households responsibly managing their growing asset and liability portfolios.

This orthodox narrative frames household debt in a very particular way. Household balance-sheets are taken as the sole subject of analysis, and thus, as long as household debt-to-assets ratio remains low, the analysis need not go further. This focus on household balance-sheets is useful in assessing the risk of households defaulting on their liabilities but says little about the changing structural role of households signified by these outstanding liabilities. To examine the significance of rising household debt in terms of what it reveals about the changing structural dynamic between households and the financial system, it is necessary to situate these changes in household balance-sheets in the context of the rapidly growing financial system and ‘deregulation’.

**The Great Australian Risk Shift**

Orthodox analyses of household debt conclude that Australian households are in a sound position to service their growing debts, as ‘debt is good when it means investment’ and a large proportion of household debt is being used to finance asset purchases (Gittins 2010). This orthodox analysis frames the significance of household debt as a relative quantity to household assets, leading to an analysis of individual risk, in particular, the risk of households defaulting on outstanding liabilities. Numerous critical political economists, such as Quiggin (2008), and Rafferty and Yu (2010) argue that households are subject to further individual and systemic risks beyond defaulting of individual liabilities. This section analyses this risk shift narrative which frames analysis of rising household debt in terms of those further risks faced by households in their new role as ‘accumulators’.

The risk shift narrative refers to ‘the process by which the burden of risk has been shifted away from governments and employers and on to workers and households’, and is useful in highlighting the numerous pressures and risks faced by contemporary Australian
households (Quiggin 2008, 3; Hacker 2006; Rafferty & Yu 2010). Similarly to the orthodox analyses examined in section one, the risk shifting analysis links issues of household debt to household investment through examining whether or not households are accumulating enough assets and the risks associated with this accumulation. By framing the analysis in terms of total household debt, the analysis is limited to quantitative conclusions of more or less risk along a linear continuum, precluding analysis of how increasing indebtedness and the pressure to accumulate assets is changing the qualitative changes in the role of households in relation to the financial system.

Much of the risk shifting literature uses the Keynesian welfare state as an ideal-type for the socialised amelioration of risk. As Giddens (2002, 25) emphasises:

> the welfare state, whose development can be traced back to the Elizabethan poor laws in England, is essentially a risk management system. It is designed to protect against hazards that were once treated as at the disposition of the gods – sickness, disablement, job loss and old age.

Risks faced by individuals, such as retrenchment or sickness, would be ameliorated by their socialisation through state safety nets, including unemployment benefits, universal healthcare and defined benefit pension plans. Here, the state was the ‘ultimate risk manager’ (Moss 2002). The risk shift narrative emphasises the role of the state in the provision of social insurance and risk amelioration in a somewhat exclusive way – the state as being the main (if not sole) provider of risk amelioration (Knights 1997). Without the state, individuals are subject to market volatility.

During the crises of the 1970s the Keynesian welfare state came under increasing pressure from neo-liberal advocates of economic rationalism who posed that the welfare state was both costly and inefficient, stifling incentives for individual entrepreneurship and progress (Quiggin 2008; Cahill 2004). Thus, with the neo-liberal critique of Keynesian statist orthodoxy, the ‘view that risk was best managed through financial transactions, rather than through social insurance, became dominant’ (Quiggin 2008, 5).
In Australia, the risk shift narrative highlights the dismantling of the historically strong state-based ‘risk management institutions’ (Quiggin 2008, 6). The ‘wage earners’ welfare state’ of the post-WW2 was ‘deliberately retrenched’ in favour of an increased role for financial markets through the policies of the Hawke-Keating, Howard and the more recent Labor Governments (Rafferty & Yu 2010, 8; Castles 1996; Quiggin 2008; Cahill 2004). This dismantling involved such policies as the privatisation of major state assets, such as Telecom, Qantas and the Commonwealth Bank, deregulation of trade and the 1983 floating of the Australian Dollar (Rafferty & Yu 2010; Quiggin 2008). As Quiggin (2008, 9) emphasises, the changes that occurred in Australia were distinct from the ‘radical retrenchments’ in countries such as the UK and NZ, and can be seen as more of a ‘refurbishment’ of the welfare state.

While strengthening many of the aspects of the welfare state, such as the introduction of Medicare, the Pharmaceutical Benefits Scheme and the 1992 Superannuation Guarantee, this ‘refurbishment’ transformed the mode of their provision into an increasingly individualist and privatised model – most saliently in the transformation of the superannuation system from a defined benefit scheme to a defined contribution scheme and the removal of employment protections with the introduction of WorkChoices in 2004 (Quiggin 2008). As Mitchell (quoted in Marston et al. 2010, xiii) argues,

in less than thirty years in Australia the ‘full employment vision’ had been transformed into the ‘full employability model’. In this model, risk is understood as something that has undergone an historical transformation, from something that has been more or less collectively managed through the institutional arrangements of state responsibility and regulation to a system where managing the social and economic risks of life is devolved to individuals, households and civil society.

The risk shift analysis highlights that with the dismantling of state-based ‘risk management institutions’, the onus is placed on individuals to acquire asset portfolios to provide for their retirement and to protect against future risks (such as retrenchment)(Bryan 2008). Households are incentivised into building largely debt-financed asset ‘nest eggs’ through government policies such as tax reductions on
superannuation contributions, first home owners’ grants and particularly through the ‘one off’ opportunity for tax-free superannuation contributions until June 30th, 2007 (RFI 2009; Quiggin 2008; Knights 1997). Households are drawn into taking on increasing levels of debt through the increasing availability of credit, lower debt servicing costs and the need to build asset portfolios to protect against future risks. Households face significant risks if they do not conform to this model of asset accumulation and have declining state provided alternatives (such as fixed pensions or unemployment benefits)(Knights 1997).

Moreover, an increasing proportion of household investments are market indexed, such as housing, share portfolios or superannuation, as opposed to fixed returns on investment. Financial assets have grown from the equivalent of 170% of average household annual income in the early 1990s to 275% currently, now comprising approximately 40% of total household assets (Figure 1.5)(Battellino 2010, 3; Ryan & Thompson 2007, 43). The percentage of adults in Australia who directly own equities grew from 10% to 40% over the 1990s, and when taking into account market indexed assets, such as superannuation accounts (of which on average over 60% is held in

![Figure 1.5 – Composition of Households Wealth, 1988-2009 (RBA 2010f)](image-url)
equities), this exposure covers the majority of the adult Australian population (Ryan & Thompson 2007, 43).

The increasing exposure of households to market prices is of particular concern as household savings and investments are subject to the vagaries of market movements engendering uncertainty and risk (See Figure 1.6) (Rafferty & Yu 2010; RFI 2009). These risks were starkly emphasised during the most recent GFC, where Australian superannuation funds plummeted by an average of 26.7% (Rafferty & Yu 2010, 61). As a result, households are increasingly subject to the discipline and fluctuations of volatile financial market movements, and are held liable for their choices as actors in these markets.

Through the risk shifting perspective, the stability and certainty embodied in the protections provided through the Keynesian welfare state are directly counterposed with the volatility and uncertainty found in deregulated markets, with particular emphasis on financial markets. For instance, Bello et al highlight (2000a, x), the ‘power of financial markets to shape economic destinies’ through the rapid movement of capital in and out of firms, industries, and borders in search of the highest returns on investment. These capital markets vastly outsize global trade and ‘real investment’, for instance the annual volume
of foreign exchange transactions was four times that of global trade in the late 1990s (Bello et al. 2000b). Currency market turnover has since reached a daily turnover of US$1.9 trillion, compared to the total value of international trade being only US$6 trillion each year (Lucarelli 2009, 52). These markets are characterised by endemic crises (Bello et al. 2000b), and even sources that are generally supportive of their expansion, including the *Economist* (quoted in Bello et al. 2000b, 2), note that;

> the problem is that all financial markets, from currencies to shares, are subject to waves of excessive optimism followed by excessive pessimism. In theory, speculation should be stabilizing: to make money, investors need to buy when the price is low and sell when it is high. However, in a bubble it is profitable to buy even when the price of an asset is high.

These crises are becoming more frequent and more devastating as the volume and velocity of financial transactions increases, and despite rhetorical efforts to regulate these markets, ‘capital is still unencumbered and volatile, moving wherever and whenever its masters desire’ (Bello et al. 2000a, xi). Thus, the key concern in the risk shifting narrative is the increased exposure of comparatively powerless households to these volatile markets through the dismantling of the stability and protections provided by the Keynesian welfare state, thus, the ‘privatisation of risk’ (Rafferty & Yu 2010, 35).

Despite its merits, this narrative often homogenises developments in financial markets – in particular, the interaction between households, the state and financial markets. The state and market are set in opposition: the state characterised as providing stability, while markets are viewed as inherently volatile and destructive (Magdoff 2006; Quiggin 2008). Households are thus caught in the middle of this diametric progression from stability in the Keynesian state to uncertainty in the deregulated market (Rafferty & Yu 2010). Any expansion in household debt or household exposure to financial markets is thus tied up with a quantitative analysis of potential instability and crisis.

Nowhere has this been more evident than in the wake of the US sub-prime mortgage crisis, where analysts rushed to dissect the volatility engendered through the
process of securitising housing loans – a process facilitated by the deregulation of financial services (For instance, Debelle 2008; Foster & Magdoff 2009; Crittenden 2008). A variety of explanations has been put forward, ranging from irresponsible lending (Debelle 2008), to over-confidence, to declining incentives for proper risk evaluation by originators (Tabb 2010; Rafferty & Yu 2010; Debelle 2008) and excess liquidity (Foster 2009; Foster & Magdoff 2009; Lapavitsas 2009b). It is not the purpose of this paper to elaborate upon the causes of and debates around this crisis, yet it is important to note how the link between increasing household debt levels, financial innovation and deregulation now, somewhat understandably, leads towards a crisis centric viewpoint (Tabb 2010).

Rises in the level of housing debt are associated with irresponsible lending practices which are facilitated by inadequate regulation. Put simply, the market is volatile and what is needed is regulation by the state. While this may be true, it is necessary to move beyond this diametric analysis of linear risk shifts if we are to further understand how households are becoming intertwined with the financial system in more subtle (yet no less important) ways than this crisis centric view proposes.

Thus, while the risk shift analysis are useful in terms of understanding the novel risks faced by households, the ‘new’ position of households is framed in terms of what is different to the ‘old’ role of households in a linear progression of increasing risk exposure. Through the risk shift perspective, the conceptualisation of the changing role of households is limited to a quantitative progression between static relationships. Moreover, similarly to the orthodox analysis of default risk, the central focus on household debt as relative to household investment limits the analysis to highlighting potential risks of default or crisis faced by households in this new role, precluding an understanding of how these normalised liabilities are indicative of a qualitative change in the structural dynamic between households and the financial system.
**The ‘Wealth Effect’**

Documented widely in the US (Aalbers 2008; Boyer 2000) and Australia (Keen 2009; Keen 2010), the ‘wealth effect’ refers to the growth in asset prices stimulated by the debt-financed investment of households (Montgomerie 2007). As households rush to accumulate an asset portfolio, this increased demand pushes up the nominal price of these assets – creating wealth for the owners of these assets in a reflexive wealth creating cycle (Boyer 2000). Orthodox and post-Keynesian analyses of the wealth effect provide a notable exception to the ontological separation of households and financial markets, whereby households are conceptualised in terms of their role in a circuitry flow of saving, investment and debt. Moreover, post-Keynesian analyses of the wealth effect highlight the central role of the *change in debt* as a source of demand in the economy.

Narratives of the wealth effect feature in orthodox analyses of the Australian housing market, however, orthodox treatments of the wealth effect are predicated on the same logic as orthodox analyses of household debt examined in section one – that the level of household debt is of little significance, as households are using this debt to finance asset purchases, and will only take on the level of debt they can manage (Keen 2010). As Montgomerie (2007, 10) explains, ‘this narrative sees growing debt levels as a virtue, rather than a vice, for the economy’, as debt which is taken on to *invest* in assets is said to be indicative of ‘rational acting individuals, guided by their own preferences, responding to economic stimuli, and in doing so creating wealth and economic expansion’. In the orthodox analysis of the wealth effect, the level of household debt is a side issue. Rather, it is potential exogenous ‘shocks’ to assets prices which are of concern. As the generally positive RBA governor Glen Stevens (2010) cautiously commented recently that

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potential vulnerabilities need to be addressed in good times, even when markets are not signalling unease, because by the time markets take notice and start responding seriously – which will usually be in bad times – the problem may have become pretty big... One would have to think that, however well households have coped with the events of recent years, further big increases in indebtedness could increase their vulnerability to shocks – such as a fall in income – to a greater extent than would be prudent.
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Alternatively, post-Keynesian economists emphasise the endogenous volatility embodied in this giant ‘Ponzi’ scheme, whereas the growth in asset prices and demand in the economy is based in growing household debt (Keen 2009, 351; Keen 2010). Post-Keynesian theorists argue that instead of debt being an ‘outcome’ of economic growth (such as in the orthodox wealth effect analysis, households purchase assets and take on debt as a by-product), it can become a determinate of economic growth (Keen 2009). Through emphasising the centrality of debt to the wealth effect, rather than assets in the orthodox view, post-Keynesian theorists highlight that ‘85% of the additional mortgage debt accumulated since 1986 predominantly has inflated house prices, rather than built new homes’ (Keen 2009, 347). Moreover, this change in debt has underpinned up to 20% of the demand in the economy since 1980 (relative to only 5% before 1970)(Keen 2009, 350). As Keen emphasises, ‘in our debt dependent economy, rising debt reduces unemployment, while falling debt increases it’ (Keen 2009, 350). Rather than being a virtuous cycle of wealth creation, post-Keynesian theorists, highlight that this ‘debt-led’ model of nominal wealth creation will inevitably lead to a process of debt deflation that is only postponed by the transferral of asset price bubbles between sectors (Keen 2010).

Furthermore, because it is household debt and assets that are underpinning demand in the economy through their debt-financed investments, it is households that bare the risks of volatility in these prices, and unemployment in the case of crisis. Thus, the increasing exposure of household assets to market fluctuations and predicted endogenous systemic crises leaves the position of household finance overconfident in good times, but extremely vulnerable to any volatility – most Australian households would not be able to cover their debt repayment obligations for more than a month in the event of lost income (RFI 2009).

In addition to the systemic risks faced by households, there are two key insights gained through the analysis of the wealth effect, the circuitry position of households in the wider political economy, and the role of debt underpinning the prices of assets.
Firstly, both the orthodox and post-Keynesian analyses of the wealth effect conceptualise households in terms of a circuitry flow with the economic system. Households are conceptualised not as somehow separate from the financial system but integral to it through stimulating asset prices through their investment and demand, and as portfolio owners that benefit from these price rises. This circuitry conceptualisation of households that is essential to understand the significance of rising household debt as changing the structural dynamic between households and the financial system, beyond that of a static linear scale of household risk exposure.

Secondly, in the post-Keynesian analysis, outstanding household debt is not just a risk exposure or significant solely in reference to investment – it is a flow that underpins growth in asset prices and demand in the economy. Thus, the wealth effect analysis highlights the new roles played by households in the current political economy – stimulators of demand in the form of consumption and investment, but also as borrowers. Debt is then not just a risk exposure, but a ‘flow’ which, in the post-Keynesian analysis, underpins demand in the economy. It is this conception of debt as a ‘flow’ that will be developed further in the following chapter – a ‘flow’ that allows the creation of globally traded securities. The conception of households as occupying a structural position in a circuitry flow of savings, investment and debt, together with an emphasis on the change in debt being a driver of economic activity (and a source of volatility) are key analytical points that will be developed further in Chapter Three through the examination of Australian credit card debt.

Similarly to the orthodox and risk shift analyses in the first two sections, however, the post-Keynesian wealth effect analysis is limited in its ability to conceptualise the changing structural dynamic of between households and the financial system through homogenising ‘household debt’. By taking household debt as a totalled quantity, the analysis of household debt then becomes tied up with asset price fluctuations and asset price bubbles, and thus crisis-centric analysis of individual and systemic risks respectively. This crisis centric analysis precludes an examination of the significance of growing household debt and investment flows in and of themselves, and how growth in
these flows is transforming the role of households in relation to the financial system from *indirect* customers and borrowers, to *direct* providers of the income streams that underpin globally traded commodities.

**Conclusion**

In sum, the dominant contemporary perspectives on rising household debt which were examined in this chapter are limited in their conceptualisation of the wider significance of rising household debt in terms of the structural relationship between households and the financial system. The orthodox and risk shift discourses are limited due to the linkage of the significance of household debt as a relative quantity to household investment. This linkage leads to an analysis of the individual and systemic risks faced by households, precluding analysis of what outstanding liabilities indicate about the changing structural dynamic between households and financial markets. Moreover, the ontological distinction between households and financial markets drawn by both orthodox and risk shift analyses, limits their conceptualisation to a static quantitative analysis of either more or less risk.

The wealth effect analyses provide a significant break with the orthodox and risk shift analyses by analysing households in term of a circuitry flow of saving, investment and debt. This is an important analytical distinction that enables an analysis of how changes in these flows might be altering the structural dynamic between households and financial markets. The orthodox wealth effect analysis, however, continues the analytical linkage of household debt as relative to household assets, precluding an analysis of this debt itself. In contrast, the post-Keynesian analysis provides another key conceptual distinction, that debt is important in its own right – as a flow that underpins demand in the economy.

The post-Keynesian treatment of *total* household debt, however, retains a risk-centric focus. It is thus necessary to disaggregate ‘household debt’ to examine household
Chapter Three will examine recent developments in the debt-financed consumption of Australian households through the case study of credit card debt. Australian credit card debt has grown from minimal levels in the 1970s, to the point at which 76.6% of Australian households now owe an average $2300 on their credit cards (ABS 2009b, 33). While credit card debt may be widespread it only comprises approximately 5% of total household debt and is thus relatively insignificant in terms of individual and systemic crisis (RBA 2010a; ABS 2009a; KPMG 2001). It then provides a unique problematic, however, due to its widespread nature and that it is analytically distinct from analyses of debt-financed asset purchases.

What then is the significance of this widespread normalised debt-financed consumption if it is not ‘rational investment’ or ominous of potential crises? The answer to this question cannot be subsumed under a discourse of the ‘rational investor’ or simply ‘dismissed’ by citing rising household asset levels (Montgomerie 2007, 10). The widespread normalisation of debt-financed consumption is then a distinct and revealing problematic which is for the most part overlooked or given inadequate attention by current commentaries on growing household debt levels. This paper takes up these questions later on: It is at this point, however, at which an examination of the process of securitisation must be added to the analysis to further understandings of how Australian households are becoming intertwined in the internal dynamics of financial market
CHAPTER TWO

Securitisation and Competition

In the previous chapter, the dominant contemporary discourses on the rising level of Australian household debt were demonstrated to be inadequate to explain the significance of this debt in terms of the changing structural dynamic between households and the financial system. Orthodox discourses see the ‘rational individual’ responding to changing economic circumstances at the base of these trends, yet what is the significance of this in terms of the changing the role of the household in the deregulated financial system? On the other hand, the risk shifting narrative was seen to homogenise developments in the financial sector as separate and inherently volatile – limiting conceptualisations of the dynamic between households and rapidly growing financial markets to that of a linear progression towards greater risk exposure.

These limiting ontological views of household behaviours being somehow ‘separate’ from ‘disembedded markets’ (or merely reactive to) those of the dynamics of financial markets must be rethought (Best 2003). This chapter argues that growth and innovation in financial markets is intertwining the operations of households and financial markets in new and complex ways, and should thus be conceptualised as parts of the same circuitry flow of saving, investment and debt. Through this conceptualisation, household debt is not merely a liability or exposure to risk; it is also an income stream that can form the basis of innovative financial instruments, stimulating novel interdependencies between households and financial markets.

To deepen our understanding of how recent financial innovations are creating these interdependencies, this chapter examines the process of securitisation. Securitisation refers to the process whereby formerly illiquid assets or liabilities are pooled together and transformed into liquid tradable commodities without actually
transferring ownership of the underlying asset itself (FDIC 2007). This process has recently been brought into popular discourse in the wake of the sub-prime mortgage crisis in the US, with securitisation being often conflated with financial derivatives in criticisms of these ‘esoteric instruments’ that merely enable speculation and volatility (Hirst & Thompson 1999, 41; Lapavitsas 2009b). This conflation, for the most part, stems from the popular reaction to the perceived irresponsible speculative practices of American financial institutions, a view that is largely congruent with the risk shifting literature introduced in the previous chapter, where derivatives and the securitisation process are characterised as the epitome of volatile and destructive financial markets (For instance, Bello et al. 2000a; Magdoff 2006). Conversely, there are a multitude of regulatory bodies and orthodox economic commentators which acknowledge the potential for the irresponsible use of these instruments, yet with adequate regulation, argue that they are essential for the management of risk and to ensure market liquidity (For instance, Debelle 2009; IOSC 2009). As such, the exponential growth in securitisation and derivative markets has been one of the most controversial developments in the period since the dismantling of the Bretton Woods agreement.

This chapter argues that the key underlying logic of the increasingly pervasive usage of financial derivatives and securitisation processes is quite different to how it is conventionally understood through the aforementioned polarised perspectives. Rather than the accentuation of financial market speculation and volatility, or enabling more nuanced risk management, this chapter draws on the conceptual framework developed by Bryan and Rafferty (2006) to argue that the key underlying logic of these instruments is the linking and commensuration of diverse value forms. The process of securitisation effectively ‘links’ increasingly specific assets and liabilities to an associated financial instrument. This commodified exposure is then competitively rated, exchanged and evaluated in terms of its prospective return on investment relative to the associated risks. Through securitisation these underlying assets and liabilities are ‘unlocked’ and become the basis for the creation of complex financial instruments. Moreover, through the competitive evaluation of these instruments, these diverse value forms are brought into a system of competitive calculation along a financial or ‘capital’ logic (Tabb 2010, 149).
Throughout this and the following chapter it is argued that the securitisation of Australian credit card debt is creating novel interdependencies between the operations of households and financial markets as the instruments traded in financial markets are increasingly being derived from household debt repayment income streams. Moreover, that the commodification of these liabilities brings these exposures (and the increasingly diverse household behaviours that are judged to affect the performance of these liabilities) into a system of competitive financial calculus. Rather than being ‘disembedded’, this process is creating novel interdependencies between the operations of financial markets and households that are increasingly embedding financial markets in the everyday actions of households which are increasingly treated as micro-units of capital accumulation. This chapter examines securitisation in a more abstract analysis of the process and, using Bryan and Rafferty’s (2006) framework, develops a novel conceptualisation of the securitisation process which shall be examined more concretely through the case of Australian credit card debt in the following chapter.

**Orthodox Perspectives on the Securitisation Process**

The issuance of debt securities has grown exponentially over the past two decades, growing to over US$25 trillion outstanding globally, polarising commentators as to whether these instruments primarily enable new forms of risk management, or if they merely facilitate unproductive speculation and heightened volatility (BIS 2010). Most regulatory bodies (For instance, IOSC 2009; BIS 2004), central banks (For instance, Debelle 2009; RBA 2010d), and other orthodox commentators (For instance, Shiller 1998; Shiller 2003; SIFMA 2009) support growth in the securitisation process and the creation of ‘risk transfer markets’ for these securities that are argued to represent a positive development in terms of financial stability (Paredes 2006; Basak & Croitoru 2006; IOSC 2009; Krahnen & Wilde 2006; Gurtler et al. 2008; BIS 2004). This section examines the orthodox proposition that underpins support for growth in securities markets: that these markets increase the ‘marketability of risk, thereby in principle
allowing risk to be better priced and allocated’ (there are also additional benefits in the provision of capital liquidity and flexibility for the originator institutions, but these will be examined further in the following chapter) (Ryan & Thompson 2007, 67; IOSC 2009; Gurtler et al. 2008; BIS 2004).

The pronouncement that these instruments enable new dimensions in the management of risk rests on two main propositions, that the isolation of individual risks enables heightened price discovery, and that as ownership is not actually transferred, these instruments are highly liquid. Firstly, the splitting of individual risk exposures and the trading of these exposure is said to stimulate more accurate price discovery (Paredes 2006). In orthodox economic theory the assumption is that the price of goods traded in a market should gravitate towards some fundamental equilibrium, reflective of the ‘objectively real’ value of the asset in question (Subrahmanyam 2009). Through sellers attempting to get the best price for their good, and the buyers trying to find the lowest possible price, an equilibrium market price is established that is assumed to reflect the underlying value of the traded good. The more buyers and sellers in the market the more efficient the process: through this ‘perfect competition’ orthodox theorists support the so-called ‘efficient market hypothesis’ (Paredes 2006; Basak & Croitoru 2006; Fama 1970; Fama 1991).

This is a somewhat blunt process, however, with the price of an asset being reflective of a diverse range of factors which come together to give the value of that asset – for instance, a credit card contract comprises multiple facets, such as ongoing repayments, potential extra fees, default risk and so on. Moreover, firms are no different, as Blackburn (2006, 43) comments: in the eyes of an investor, the firm is merely ‘an accidental bundle of liabilities and assets that is there to be reorganized to maximize shareholder value’. Through secondary derivative markets, individual exposures to the performance of a given firm, asset or liability may be commodified and traded; for instance, an income stream derived from the repayments on the credit card account.
Although trades in secondary markets are not actually exchanging the underlying asset, price movements in these markets provide a proxy judgement of the value of the underlying asset. Just as changes in the performance of the underlying asset will affect the valuation of associated securities, movements in the price of the secondary instrument will affect the price of the underlying asset (Jobst 2006). Thus, the trading of increasingly specific exposures in these secondary markets is argued to contribute to more nuanced and thus accurate price discovery of the underlying asset or liability (Jobst 2006).

The second main proposition is that these commodified exposures are highly liquid: while an investor may purchase a security representing the income stream attached to an underlying asset or liability, the ownership of that asset or liability retained by the service provider – the ‘originator’ (Bryan & Rafferty 2006). The investor then possesses the rights to the associated income stream, but also takes on associated risks such as that of default, low use of the card or late payments, but not the actual ownership of the underlying asset or liability. The commodified exposure can be traded on secondary markets indefinitely, whilst responsibility for the ongoing maintenance and oversight of the underlying asset or liability remains with the originator (FDIC 2007). The exchange of these exposures is then simply the exchange of the paper documentation with no extra responsibilities, enabling increasingly specific aspects of these underlying assets and liabilities to be transformed into highly liquid commodities.

Hence, due to this increased liquidity and the ‘splitting’ of exposures, orthodox commentators argue that these instruments enable more accurate price discovery and heightened risk management as individual risk exposures can be traded and taken on by those who are most able to bear these risks (LiPuma & Lee 2004; Bryan & Rafferty 2006; Paredes 2006; Basak & Croitoru 2006; Subrahmanyam 2009). This process can be used for either speculation or to hedge positions. Firstly, regarding speculation, an investor who wants to secure above average returns on their investment may want to take on extra risk in order to secure this return. The relative risk associated with the security (such as default risks on the underlying liabilities) is weighed against the prospective ‘yield’ – the difference between the expected return on the investment above supposedly ‘risk free’
investments in sovereign government bonds. Thus, the investor ‘speculates’ in the relative future return on the investment compared to the expected risk. When there are a large number of speculators this process is argued to increase ‘price discovery’ by the speculators attempting to exploit any discrepancy between the risk rating, price and return on the investment (Paredes 2006; Basak & Croitoru 2006; Subrahmanyam 2009). For instance, if the price of a security is thought to be above the ‘fundamental value’, the sale of the security by speculators would reduce its price thereby moving the price closer to its ‘real’ price. Hence, this process stimulates more accurate price discovery and enables firms to actively diversify their portfolio by taking on risk (Basak & Croitoru 2006).

In addition, this process can be used to ‘hedge’ risk exposures. An investor may have a large proportion of their investment portfolio exposed to a specific type of risk, for instance, default risk associated with Australian mortgages. To offset this large, singular risk, they could then issue these debts as a security, thereby moving this risk off their balance-sheet. Alternatively the investor could purchase securities with a different risk exposure to their current holdings, such as US credit card securities. With the standardisation of these contracts and rapid growth in trading volumes, investors and firms are said to be able to select which risk exposures they would like to speculate on, which to hedge, how to hedge them and so on (Paredes 2006; Aglietta & Breton 2001; Tilman 2009; IOSC 2009).

In sum, the orthodox position is that risks are best managed through the free interaction of individuals in financial markets, and secondary securities markets can effectively generate prices that reflect the underlying ‘fundamental’ values of assets (Quiggin 2008; Gurtler et al. 2008; Shiller 1998; Shiller 2003).

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2 ‘Hedging’ and ‘speculation’ are actually the same basic process. Essentially, the difference is one of intention as a firm may take on more risk, or offset existing risks through the hedging process. (For a more in-depth discussion see, Das 2006 and Wigan 2009)
Securitisation as Speculative and Volatile

Although the orthodox pronouncement that growth in risk transfer markets enhances the ability of firms and individuals to manage risk, there has been growing concern around the potential risks associated with the securitisation process. These concerns have gained momentum in the fallout of the recent sub-prime crisis in the US and have been clustered into two main groups. Firstly, there are ‘procedural’ concerns with the current opacity of the securitisation process and the decline in incentives for originators to accurately assess risks, yet these commentators usually conclude that, with adequate regulatory oversight, the securitisation process can be quite stable and an effective tool to manage risk. Secondly, ‘structural’ criticisms have focused on the contribution to systemic fragility inherent in the securitisation process itself.

Firstly, ‘procedural’ concerns with the current opacity of the securitisation process have been put forward by even some of its enthusiastic supporters (For instance, IOSC 2009; Chan-Lau & Lu 2008; Schwarcz 2009). Numerous post-mortems of the 2006-07 sub-prime crisis in the US have identified a lack of transparency involved in the continual repackaging and exchange of sub-prime mortgage-backed securities as an underlying cause of the crisis (Rafferty & Yu 2010; Debelle 2009; Lapavitsas 2009b). The process of securitisation follows an ‘originate and distribute’ model, whereby the incentive is for financial institutions to originate as many income streams as possible. Given the focus on quantity over quality, there is reduced incentive for these financial institutions to properly assess and manage risks associated with the underlying loan (Aglietta & Breton 2001; IOSC 2009; Dwyer 2004). These underlying risks are passed on to investors through the issuance of these debt-backed securities with the originator gaining the immediate sale price with no exposure to the long term quality of the underlying debt (Aglietta & Breton 2001). This effect has been identified by numerous industry regulators as having stimulated opportunism by originators to create ‘toxic assets’ which are passed on through the financial system (For instance, FDIC 2010; D'Aloisio 2009).
This is a principal distinction between derivatives and securities. While derivatives are associated with an underlying asset or liability, there is no income stream or underlying collateral attached to the derivative instrument stimulating perceptions that these instruments are inherently volatile. Alternatively, as securities are associated with an underlying income stream that is passed on (even though ownership is not), the problem becomes one of accurately pricing the associated risks of the underlying asset or liability (IOSC 2009; Gurtler et al. 2008; Gaspar & Schmidt 2008; Chan-Lau & Lu 2008). Given this distinction, the securitisation process has been discursively separated with calls to ban only speculative derivative transactions – an implicit endorsement of the ability for securities markets to accurately price the risk associated with the underlying income stream (For instance, see Rohan 2010). Procedural concerns by regulators thus usually conclude that that with proper regulation, (such as enhancing transparency requirements and keeping the originators ‘skin in the game’ through a long term interest in the security) this process can be a stable and useful tool to manage risk (IOSC 2009, 18; FDIC 2007; Debelle 2009; Gurtler et al. 2008; D'Aloisio 2009).

There have also been fervent ‘structural’ criticisms that emphasise the inherent systemic fragility and volatility produced through the securitisation process (Foster & Magdoff 2009). The orthodox logic underlying these ‘risk transfer markets’ is that large risks faced by an individual institution that is ill-equipped to bear this risk can be diluted through their dispersal into financial markets (Chan-Lau & Lu 2008). While this lowers the risk faced by the original institution, this process effectively ties this risk to a variety of institutions which have an interest in the security (Krahnen & Wilde 2006; Franke & Krahnen 2005). Moreover, this process spreads the risk associated with the particular security across the entire market for securities of a similar type, regardless of whether or not participant institutions have an interest in the original security (Debelle 2009; Krahnen & Wilde 2006). The volatility associated with this synchronisation was devastatingly demonstrated during the recent sub-prime crisis in the US (Lapavitsas 2009b). Rather than being an isolated crisis in the housing sector, the effect of these defaults were spread through the US financial system due to systemic exposure to residential mortgage backed securities (RMBS)(Lapavitsas 2009b). This effect has led
commentators to conclude that although these ‘risk transfer markets’ may reduce isolated risks, ‘we may be moving to a world of less frequent but potentially higher impact crises (Ryan & Thompson 2007, 67; Bryan & Rafferty 2006; Krahnen & Wilde 2006; Franke & Krahnen 2005).

Moreover, the underlying premise of the orthodox assumption that these markets can accurately price risks has been convincingly disputed (For instance, Quiggin 2009; Minsky 1992; Stiglitz 2006). Orthodox theorists, such as Subrahmanym (2009), assume that trading in markets oscillates around, and gravitates toward some fundamental equilibrium price. The greater the volume of trade in a market the more efficiently the market should gravitate towards this fundamental price, as per perfect competition (Subrahmanym 2009; Fama 1970; Fama 1991). Critics from a variety of perspectives, however, emphasise that this assumption is just that – an assumption – that market prices do not simply gravitate to some objectively given ‘real’ value but are determined through the expectations and estimations of market participants (Quiggin 2009; Aglietta & Breton 2001). Keynes (1965, 46) infamously described this as a ‘beauty contest’ whereby prices are determined by what market actors expect other market actors to expect, rather than being based in some underlying notion of an objective value. Aglietta and Breton (2001, 438) highlight that ‘the market’s collective assessment is neither the reflection nor the uncovering of a pre-existing objective reality, it is an internal process of co-ordination relying on highly diverse individual opinions’. It is the various expectations of market participants, or ‘animal spirits’, that are the driving force behind market movements that follow the overly optimistic risk taking behaviour of originators, investors and risk assessor alike, endogenously producing volatility and crises (Keynes 1965, 156; Minsky 1992). As Tabb (2010, 156) comments,

While speculators are believed by mainstream financial theorists to be exploiting market inefficiencies and anticipating market movements, the potential for herd error is often ignored until a major widely shared misjudgement occurs.
In sum, the opacity and complexity of the securitisation process is indeed an important concern, but the conclusion that with ‘adequate regulation’ these instruments can accurately and objectively price and transfer risk is doubtful considering the role of overly optimistic expectations in the pricing of risk. The structural transformation of risk assessment incentives and the subjective determination of prices have led some to the conclusion that these are inherently destabilising instruments (Foster & Magdoff 2009). This increasingly popular conclusion is, however, very limited in its conceptualisation of the securitisation process as happening ‘out there somewhere’ in the realm of esoteric financial markets which engender systemic volatility and shift risk onto increasingly vulnerable and exposed households – the former as somehow ontologically separate and volatile, and the latter as unwitting subjects to these destructive markets.

There has, and will always be inaccuracy in the pricing of risk and these instruments merely provide a logic and means for the increasingly specific isolation and transferral of these risks through the linking of diverse value forms. The orthodox perspective emphasises the risk management potential in the linking of these risk exposures to an associated commodity. Conversely, the ‘structural’ criticisms of this process highlight how this linkage contributes to systemic fragility and volatility. Irrespective of whether or not it is deemed to engender stability or volatility, these conceptualisations are limited by their focus on the transferral of risk.

_Securitisation as the Commensuration of Value Forms_

In contrast to the above perspectives (which focus on the transferral of risk) it is argued here that the key significance of the securitisation process is the linking of value forms, through which diverse assets, liabilities and behaviours become liquid and commensurable. Furthermore, as exposures to these formerly illiquid measures become highly tradable commodities, their relative values can be competitively evaluated in secondary markets. Securitisation enables the commensuration of formerly illiquid assets
and liabilities, thereby drawing them into a system of competitive financial evaluation through the trading of their associated securities.

As Bryan, Rafferty and Martin (2008, 126) highlight, the development of a web of financial derivatives effectively ‘decomposes all capital into its constituent tasks so as to commensurate the value of each of them and then discipline their deviations from optimal performance’ by dividing ‘assets into their exposures and commensurate[ing] their values’. Although this chapter focuses on the process of securitisation; it should be noted that the underlying process is extremely similar to that of derivatives – the isolation and commodification of specific assets or liability exposures, which enables the competitive evaluation of these exposures in financial markets (Bryan et al. 2009).

The securitisation of assets or liabilities effectively subordinates their concrete value form to a more universal measure of risk-adjusted expected return-on-investment (Bryan & Rafferty 2006; Fleetwood 2000). In other words, the physical attributes of the commodity or debt are abstracted from to produce a highly liquid and malleable commodity derived from the underlying elements (Bryan et al. 2009). This standardisation is achieved by the physical particulars of the asset or liability being aggregated through their amalgamation in large numbers, thereby producing more stable, aggregated attributes. For instance, an outstanding credit card debt receivable has very specific relationship between a lender and an individual, incorporating a very particular risk of default, level of interest payments, turnover rate and fee payments. Through pooling a large number of these accounts, the particulars of each account become less significant relative to their aggregated representation in the form of an Asset Backed Security (ABS). An exposure to the performance can then be on-sold to investors in the commodity form of an ABS, representing the expected return on the underlying income streams without transferring ownership of the underlying assets or liabilities (Bryan et al. 2009).

Thus, the competitive determination of the price of an ABS becomes a proxy evaluation of the ‘performance’ of the underlying asset or liability. As ownership of the
underlying asset or liability is not transferred and its particularities are subordinated through its collateralisation, the value of a particular asset, liability or indicator is reduced to its perceived influence on the creation of value – its expected return-on-investment relative to the associated risk (Bryan & Rafferty 2006). This more abstracted definition of an asset or liabilities prospective ‘performance’ enables the commensuration of an increasingly diverse range of assets, actions or indicators.

For example, the income streams attached to the repayment of Japanese mortgages can be directly commensurated with those from a French long term bond or Australian credit card repayment. Using derivatives income streams can be linked to movements in national interest rates, which affect the cost of that firm’s capital; or they could extended to incorporate measures such as the default risk of the firm’s suppliers across time and across multiple currency zones and so on. This evaluation subsumes diverse forms of capital into a singular evaluation of prospective profitability, collapsing measures of past and future profitability across a range of assets and indices into a singular logic of capital accumulation through their commensuration (Bryan et al. 2009). Thus, as Bryan, Rafferty and Martin (2009, 466) comment, these instruments are ‘a financial representation of underlying assets which embod[y] liquidity and a competitive determination of value’.

The first section examined perspectives on securitisation as a tool for risk management or as a process that simply promotes speculation. Although these arguments have some validity, the key underlying process common to these instruments is the transformation of exposures to formerly illiquid assets, indicators and liabilities into highly liquid commodities. This process ‘unlocks’ these diverse value forms enabling their commensuration, thereby subjecting them to a competitive evaluation in financial markets in terms of their expected return on investment against the associated risk exposure (Tabb 2010, 149).

It is important to note the significance of this commensuration of assets and liabilities in terms of their ‘performance’ rather than their ‘exchange value’. Traditionally
‘fiat money’ (state backed currency) is used to provide a benchmark for the exchange value of commodities – the price for which they could be sold at market (Fleetwood 2000, 176). Instead, derivatives not only allow the trading of an increasing variety of assets, liabilities and indicators, but also their evaluation in terms of their expected return on investment relative to the associated risk exposure, rather than simply their exchange value. It is this that has led theorists such as Bryan and Rafferty (2007, 142; 2006) to refer to derivatives as ‘distinctly capitalist money’, as they embody a competitive evaluation in terms of capital accumulation in a way that fiat money does not. The prices of derivatives and securities are essentially an evaluation of the relative value of the underlying asset or liability in terms of its role in capital accumulation – its expected return on investment relative to the associated risk exposure.

This being said, these various value forms are not necessarily made commensurable through some version of ‘perfect competition’ in secondary markets. Financial derivatives and securities simply provides a logic for the evaluation of diverse value forms, rather than the actual commensuration of these values towards some exogenous measure of ‘fundamental values’ (Bryan & Rafferty 2006, 37). Indeed, this process of financial evaluation is not a purely mechanical project; it is inherently political and contested (Bryan & Rafferty 2006; Persaud 2000; Aglietta & Breton 2001). Rather than signifying the unleashing of the objective forces of supply and demand, this competitive commensuration is based on expectations of prospective profitability over time (Bryan & Rafferty 2006). Attempting take into account an increasingly complex array of variables is inherently subjective and vulnerable to error (Persaud 2000; Aglietta & Breton 2001). The key point is not that financial derivatives and securities enable the ‘objective’ commensuration of diverse value forms – it is that they make attempts to do so profitable (Bryan & Rafferty 2006, 130).

Securities and derivatives subordinate diverse value forms into a singular logic of valuation – expected return on investment relative to the associated risk. This logic represents a particular epistemology – that diverse behaviours can be viewed as a calculable set of risk exposures (Bryan & Rafferty 2006). Securities and derivatives
transform increasingly specific behaviours and illiquid values into tradable commodities, but by doing so they transform diverse behaviours, actions and value forms into calculable ‘exposures’. Securities and derivatives enable an increasingly diverse array of values and behaviours to be evaluated in terms of an inherently competitive logic. It is important to reiterate, that this is a logic to conceive of these values, rather than an objective measure of ‘fundamental values’. It is an epistemological device that enables the world to be interpreted as a set of calculable exposures. Securities and derivatives enable the uncertainty surrounding the price of diverse value forms to become a tradable commodity – commodifying uncertainty itself into a tradable ‘risk exposure’ (Bryan & Rafferty 2006). Through securities and derivatives, expectations of value in an increasingly uncertain and volatile political economy are transformed into competitively traded commodities and evaluated along this capital logic.

Furthermore, this competitive logic differs from conventional understandings of competition as occurring through market exchange between buyers and sellers. Instead capitalistic competition is conceptualised as occurring throughout capital accumulation processes, not just in the determination of the exchange value of a commodity (Bryan 1985). In other words, actors in the economic system are drawn into, and compelled to play their part in, the accumulation of capital through the evaluation of their role in value creation.

**The Financialisation of Firms**

The increasing salience of financial market calculations has received growing attention through research on financialisation. This term has been used in a variety of ways; to describe epochal changes in the primary source of profit making (Krippner 2005; Boyer 2000; Aglietta & Breton 2001; Guttmann & Plihon 2008; Epstein 2005); to describe the increasing power of global financial markets (Aalbers 2008; Hein & Truger 2010); to describe the exponential growth in financial market turnover (Aalbers 2008;
Krippner 2005); and to conceptualise the increasing role of financial considerations and motives in the operation of economic agents (Froud et al. 2000; Erturk et al. 2005; Montgomerie 2006; Bryan & Rafferty 2006; Bryan et al. 2009; Martin 2002; Krippner 2005; Aglietta & Breton 2001; Wigan 2009). This section focuses on the latter meaning – the expansion of a financial calculus or ‘capital logic’ onto increasingly diverse and specific assets, liabilities and behaviours.

This section will briefly examine how the existing literature conceptualises financialisation in terms of increasing salience of a financial calculus regarding the behaviour of firms. The literature on the financialisation of firm behaviour is revealing of the greater competition and pressures faced by firms yet leads conceptualisations of financialisation to be viewed singularly as an ‘economic’ – as distinct from a social or political – phenomenon. Much of the financialisation literature overlooks the significant social transformation that financialisation represents through the transforming of increasingly diverse behaviours into calculable ‘exposures’ whose value can be competitively evaluated. The following chapter will analyse this social transformation through examining the infiltration of competitive financial calculus into household behaviours through the securitisation of Australian credit card debt.

Since the 1970s there has been an increase in firms and individuals’ exposure to an array of risk types associated with the increasingly global nature of production and supply chains and the deregulation of price stabilisation systems prominent in the post-war neo-Keynesian period (Bryan & Rafferty 2006; LiPuma & Lee 2004). The result of this increased exposure to complex forms of risk has precipitated equally complex ways to manage these risks, such as through the use of financial derivatives and securitisation (Bryan & Rafferty 2006; LiPuma & Lee 2004; Wigan 2009). To recall Blackburn’s (2006, 43) comment on the investor’s view of the firm as ‘an accidental bundle of liabilities and assets that is there to be reorganized to maximize shareholder value,’ – through the use of derivatives and securitisation, each liability, each asset and each risk exposure can be progressively analysed, traded and evaluated in terms of its performance.
Using securitisation and derivatives a firm’s loan portfolio could be linked to the future share price of a firm, or to movements in national interest rates, which affect the cost of that firm’s capital (Bryan & Rafferty 2006). Furthermore, this link can be extended to incorporate measures such as the default risk of the firm’s suppliers across time and across multiple currency zones. The competitive evaluation of these commodified exposures can effectively ‘open up’ the individual actions or exposures of an economic actor – subjecting increasingly specific and diverse value forms to the scrutiny of competitive capitalist evaluation in complex and innovative ways. A firm can then ‘dynamically manage’ their portfolio in order to ‘create value’ by actively taking on risk exposures or hedging others (Tilman 2009, 61).

While this may well be a central imperative underlying the use of these instruments by firms, the result of this is the ‘unlocking’ of these illiquid assets, liabilities or exposures through the creation of an associated derivative or security. As firms diversify their portfolios in the pursuit of dynamic management through hedging or securitisation, these commodified exposures are then traded and evaluated in secondary markets – imposing competitive pressures on their performance in real time (Aglietta & Breton 2001; Bryan & Rafferty 2006). This process effectively ‘unlocks asset values’, enabling their commensuration and evaluation on secondary financial markets, and reflexively disciplining their prospective role in value creation (Tabb 2010, 149). Assets are thus evaluated by these markets in real time, with ‘underperforming’ values being written down through price movements in derivative markets (Bryan et al. 2009; Aglietta & Breton 2001; Bryan & Rafferty 2006). Blackburn (2006, 42) highlights;

this growing and systemic power of finance and financial engineering, as [representing a] ‘grey capitalism’ because relations of ownership and responsibility have become weakened or ‘blurred’... In the end the largest and most famous of corporations have only a precarious and provisional autonomy within the new world of business – ultimately they are playthings of the capital markets.

While these practices are not automatically adopted by firms, there is an implicit imperative for firms to use financial derivatives to manage risk exposures lest they be
exposed to unhedged risks and be deemed too risky by prospective investors. As such, there are increasing opportunities but also imperatives for firms to evaluate dynamically the profitability of each aspect of the production process relative to its associated risks (Bryan & Rafferty 2006; LiPuma & Lee 2004). These two aspects work in a mutually reinforcing reflexive fashion with firms attempting to properly manage their risks while stimulating increased evaluation of these risks and aspects of their portfolio on secondary markets (LiPuma & Lee 2004). Thus, a firm’s behaviour is disciplined in novel ways through this competitive evaluation, or ‘capital logic’, which is both the result and stimulus behind a multitude of individual decisions. As French et al (Forthcoming, 8) highlight, financialisation can be seen as ‘a process that has introduced a new form of competition within the economy and that has the capacity to become ever more pervasive’.

Despite the merits of this focus on the financialisation of firm behaviour, it is indicative of the way research around ‘financialisation’ since the late 1990s has been problematically tied up with the concept of ‘shareholder value’ – that firms must dynamically manage their portfolios to maximise returns to their shareholders (Erturk et al. 2005, 5). Research into the financialisation of firm behaviour provides a useful and interesting strand of research, yet lead to a conceptualisation of ‘financialisation’ as a primarily economic phenomenon. The next chapter examines the social transformations brought with the financialisation of household behaviour through the securitisation of Australian credit card debts. That households are increasingly been brought into this system of financial calculation; but, through this conceptualisation, they are reduced to being conceived as micro units of capital accumulation.

It must be noted at this stage that these changes are not simply ‘imposed’ on individuals and firms from ‘somewhere out there’ with a predetermined outcome. Indeed, growth and innovation in the financial system is interwoven with transformations in household and firm behaviour together with state policy. Moreover, recent studies variously emphasise the resilience of corporations in the face of these pressures (Johal & Leaver 2007), dispute the universal nature of these pressures (Froud et al. 2000) and
emphasise local particularities and contradictory outcomes (Froud et al. 2000). As Montgomerie (2008, 234) comments, financialisation is an ‘aspiration’, referring to the incompleteness and asymmetry of the financialisation process. This theme of reflexivity and indeterminacy will be examined further in the next chapter, thereby integrating the more abstract theoretical arguments of this chapter with the more concrete historical developments explored in the previous chapter. As such, the argument presented above is somewhat forward looking, based on a combination of theoretical literature and developments in global markets. Furthermore, the trajectories explored are not aimed at a predetermined teleos, given by either the theoretical logic or international examples, but do attempt to conceptualise the tendencies enabled by, and that stimulate the use of, financial derivatives and securitisation.

Conclusion

This chapter has argued that the exponential growth in the use of derivatives and securitisation of assets and liabilities signifies new dimensions in the manifestation of a competitive financial calculus. Although the individual incentives for derivative usage may be risk-management or speculation, the linking and commodification of diverse value forms effectively ‘unlocks’ these measures to the scrutiny of financial market calculus. The result is a web of derivatives and securities that ‘decompose capital’ into individual exposures and measures enabling new dimensions in the competitive evaluation of their role in value accumulation (Martin et al. 2008, 127; Bryan & Rafferty 2006).

Beyond its effect on the operation of firms, this process is bringing increasingly diverse exposures and behaviours into this system of calculation. To recall the ontological separation of households and financial markets made by the orthodox and risk shift perspectives on household debt examined in Chapter One, this process of financialisation blurs this distinction in novel and complex ways. Households, firms and financial markets are increasingly intertwined and interdependent. These diverse value
forms and behaviours are brought into a system of calculation that collapses their particularities into a singular measure of their expected return-on-investment relative to the associated risk.

Rather than the simply transferral of risk or speculation, it is this process of competitive valuation that is the central underlying logic of securities and derivatives. Not only do they represent a new dimension in capitalistic competition, but also a significant epistemological shift in the way diverse actions and behaviours are conceptualised – a social change through the epistemological shift towards conceiving diverse value forms and behaviours (such as household behaviour) as a calculable set of risk exposures. The following chapter analyses this process through the securitisation of Australian credit card debt to argue that these normalised outstanding liabilities of households are effectively ‘unlocking’ their behaviours to the scrutiny of financial market calculus. Moreover, the following chapter argues that this process is indicative of the growing interdependence between households and the financial system in general – a social and structural transformation whereby households increasingly become units of capital accumulation that underpin growth and innovation in the financial system.
CHAPTER THREE
Securitisation of the Australian Credit Card Market

The interconnections between society and the capital markets which have become established over the last 30 years or so are unprecedented in their scope and pervasiveness. They encompass both the US and UK, and have been produced not simply through transformations in everyday saving and what it means to be a saver, but also through situated, embedded and embodied transformations in everyday borrowing.

– Paul Langley (2008b, 11)

Critical political economic discourses predominantly conceive of developments in financial markets as occurring ‘out there somewhere’, detached from households and the ‘real’ economy, which they perceive simply as passive subjects exposed to the volatility of these markets (Langley 2008a, 6). This ontological separation can be useful to conceptualise quantitative shifts in the individual and systemic risks faced by households who have an increasing proportion of their investment portfolios exposed to these volatile markets. This static conceptualisation of households’ interaction with financial markets as being a linear progression of risk exposure is, however, very limited in its ability to conceptualise the qualitative transformations in the structural dynamic between households and financial markets. Langley’s comment (above) captures this extremely important – yet largely ignored – aspect of recent financial developments: that they are ‘embedded’ in dynamic transformations in the everyday behaviours of households. Although Langley highlights this important interdependency between financial and household transformations, however, through his ‘governmentality’ approach this financialisation is conceived as a top-down process, where household behaviour is disciplined somewhat mechanically by the powerful financial developments originating in the financial hubs of the US and UK. By maintaining a conceptual separation of households and financial markets, Langley’s (2008a, viii) perspective simply elevates
everyday life ontologically, rather than as increasingly active and integral components of the developing financial system.

Conversely, orthodox commentaries (such as from the RBA) emphasise the centrality of households, whereby changes in household balance-sheets are argued to be ‘at the root of many of the changes in the Australian financial system’ (Ryan & Thompson 2007, 38). As was argued in Chapter One, the orthodox focus on household balance-sheets may be useful to analyse the default risks of individual households, but is very limited in conceptualising the changing structural dynamic between the household and the financial system.

In contrast to Langley’s governmentality approach and orthodox analyses, this chapter argues that respective transformations in household behaviour and the financial system do not occur in a vacuum. Rather, this chapter conceptualises the dynamic changes in the relationship between households and financial markets as reflexively enabled and stimulated by changes in both household and financial market behaviour that creates interdependencies between the two. The securitisation of Australian credit cards is indicative of this reflexivity, with increasing demand for credit by households underpinning growth in securitisation, and conversely, the securitisation of these accounts enabling the recent growth and profitability in the extension of credit card debt.

While securitisation has not simply created the long term rise in household debt in a top down fashion, it has transformed the significance of this debt, and consequently transformed the relationship between households and the financial system. In the ‘productionist’ model, credit card provision is through a one-to-one relationship between the borrower and lender with profit being primarily derived from the interest and fees paid on the account. With the securitisation of these liabilities, these credit card debts are transformed into income streams that underpin globally traded commodities, forming a direct relationship between households and financial markets. Through this process household credit card debt is directed into the ‘coupon pool’ of financial markets, which consists of circuitry flows of savings, investment and debt.
This direct linkage of households and financial markets through securitisation precipitates a competitive evaluation of the collateral underlying the income streams associated with these securities. In contrast to securities such as RMBS, however, there is no underlying asset associated with CARDs to be used as collateral; instead it is the behaviours of the account-holders which are competitively evaluated in financial markets. The direct interdependency between households and financial markets (and the competitive scrutiny of household behaviours this entails) signals a significant social transformation. Households are increasingly conceived of and treated as micro-units of capital accumulation, indicative of a significant epistemological shift towards diverse behaviours and elements being conceptualised as a set of calculable and tradable risk exposures.

As was examined in Chapter One, orthodox and ‘risk shifting’ perspectives (which analyse household debt as quantitatively relative to household investment) are largely entangled with analysis of associated individual and systemic risks. This limits their conceptualisation of changes in the position of the household to a linear progression of more or less risk. Instead, this chapter examines household debt-financed consumption patterns through their credit card use. Australians do use credit card debt to smooth out repayments on mortgages; but this use is primarily only incidental with the vast majority being used to supplement their consumption patterns (VISA 2006). Taking on debt to finance consumption patterns cannot be subsumed into a discourse of ‘rational investment’, instead, they provide a distinct problematic which is revealing of the dynamic transformations brought with households’ direct involvement in financial markets beyond a linear progression of risk exposures.

Furthermore, Australian credit card debt only comprises approximately 5% of total household debt and have very low arrears rate (around 1%) (ABS 2009b; RBA 2010a; KPMG 2001; RBA 2010d). When these credit card debts are analysed independently they appear relatively insignificant in terms of systemic fragility and individual bankruptcy. Credit card debt thus provides a distinct problematic with which
to analyse the growing interdependence between households and financial markets, analytically unencumbered by issues such as financial literacy, rational investment, and individual and systemic risk. This being said, issues of systemic crisis do re-emerge later on in this paper, but only as a precipitate of the analysis, not as the purpose of the investigation.

The Securitisation of the Australian Consumer Credit Industry

The securitisation of credit card loans enabled financial institutions to overcome many of the constraints they continued to face even after ‘deregulation’, allowing them to extend unprecedented amounts of consumer credit while dramatically increasing their profitability (Montgomerie 2006). The first credit card securitisation was arranged in the US in 1987, and Australian financial institutions rapidly adopted these practices and began to on sell credit card backed securities, or Certificates for Amortising Revolving Debt (CARDs). The first credit card security in Australia was arranged in 1991 by BT Financial (FDIC 2007; Thompson 1995; Robinson 2010). The securitisation of credit card loans benefits the originators in three principal manners: by providing an easy source of funds; enabling the originator to expand their lending portfolio through duplicating capital reserves; and it facilitating the expansion and on selling of loans that would normally be ‘too risky’ to be viably traded (This section will examine the first two, and the latter is addressed in the third section) (Agarwal et al. 2010; FDIC 2007; Debelle 2009; Gurtler et al. 2008; Dwyer 2004).

Firstly, securitising outstanding liabilities provides loan originators with a means of raising immediate funds. Rather than having to wait for the income streams on receivable loans to pay back the principal, loans can be originated, collateralised and on-sold in a fraction of the time (FDIC 2007; Lumpkin 1999; Dwyer 2004). In the pre-securitisation ‘productionist’ model of credit provision, the principal sources of profit were derived from the interest paid on the card itself, and through the promotion of the issuer’s services or partners through acceptability agreements (whereby a certain card
would be accepted at a range of stores associated with the issuer). The repayment of the interest and principal associated with these accounts take some time, as payments come in gradually. An institution which owns a pool of outstanding credit card loans may need to raise capital quickly for one reason or another. Through the securitisation of this loan pool, the accounts can be on-sold as a security, generating capital for immediate use (FDIC 2007; Dwyer 2004). Thus, the commodification of income streams associated with credit card debts enables them to be highly tradable and transferrable, creating an additional source of capital for originators through their sale of formerly illiquid income streams on secondary markets.

Secondly, securitisation can dramatically reduce restrictions on financial institutions lending practices caused by the need to have capital reserves for a certain percentage of their outstanding credit. In the productionist model of credit extension, a credit card account was a one-to-one relationship between the account-holder and the lender, meaning that the account would remain on the lenders’ balance-sheet. In accordance with the Australian Prudential Regulation Authority’s (APRA) (2008, 6) prudential capital ratio (PCR) requirements, Australian deposit taking institutions are required to keep 8% of their total risk-weighted assets of the loan as a capital reserve. For instance, if the institution had $100 million in capital reserves, it could only lend out $1,250 million. Securitisation circumvents these requirements as outstanding credit is moved off an institution’s balance-sheet onto that of a Special Purpose Vehicle (SPV) (Lumpkin 1999).

Legally, an SPV is a semi-autonomous entity created by an institution in order to purchase the pool of assets from an originator (possibly including the SPV’s creating institution or another holder)(ABS 2010; FDIC 2007; Gurtler et al. 2008). The initial purchase of a debt pool is funded by the creating institution (FDIC 2007). The SPV then issues the arranged debt portfolio as a security and repays its creating institution (FDIC 2007). Investors in the security issue receive the income streams from the repayment of the outstanding debt portfolio (FDIC 2007). As the debt portfolio is purchased by the SPV, the outstanding debt moves off the institution’s balance-sheet, circumventing the
need to retain capital reserves to cover this debt, and enabling the institution to fund more loans (FDIC 2007; Lumpkin 1999; Gurtler et al. 2008).

Together, these attributes of securitised loans enable originators to expand their lending portfolios greatly, simultaneously providing liquidity to the firm and credit to the consumer (Gurtler et al. 2008; SIFMA 2009). With the support of the RBA and financial lobby groups such as the Australian Securitisation Forum (ASF)(established in 1989) securitised debt quickly boomed, transforming the Australian consumer credit industry (ASF 2010). The rapid growth in Australian Asset-Backed Securities (ABS) issuance is indicative of these benefits, growing from $7.9 billion outstanding in 1992 to a peak of $253.2 billion in 2007 (this figure has since dropped in the wake of the US sub-prime crisis which will be discussed below)(RBA 2010b).

**Securitisation and ‘Debt-Pushing’**

Since the advent of securitisation techniques, the profitability and flexibility of credit card provision has undergone unprecedented growth to become one of the most profitable financial services (Montgomerie 2007). In this ‘originate and distribute’ model, however, the profitability of the consumer credit industry is underpinned by constant growth and turnover in the pool of securitised loans (Montgomerie 2007). In contrast, under the bank-based lending system, the loan would be repaid with an interest premium and the bank would profit from the service provision. In the ‘originate and distribute’ model, the profit of credit card originators is made through the one-off sale of income streams as a commodity, precipitating a need to continually produce these commodities. This profit model requires the continual extension of credit to new customers, and/or growth in the size or frequency of turnover in existing accounts (Montgomerie 2007).

The extension of credit to new customers is underpinned by aggressive advertising and unsolicited credit cards being offered widely (among other techniques).
The ‘Big Four’ banks\(^3\) alone spend a total of over $1 billion every year on advertising products such as credit cards (Fear et al. 2010, v). In a 2010 survey of 1360 Australians by the Australia Institute, two out of every three respondents had received an unsolicited offer for a credit card in the previous 12 months (Fear et al. 2010, 17). Although these practices pre-dated the advent of securitisation, the ‘originate and distribute’ model of profitability structures them into the profit model of credit card originators.

The rate at which loans can be securitised is directly related to the amount outstanding on the collateralised accounts, which provides originators with incentives to encourage customers to borrow large amounts and turn this amount over regularly (Montgomerie 2007; Montgomerie 2006). Large advertising campaigns promote the use of credit cards with members benefits, discounts and ‘rewards programs’, ‘lines of credit’ attached to mortgages, and interest-free periods, encouraging overspending and revolving debt (KPMG 2001; Fear et al. 2010). In the aforementioned Australia Institute study, one in two respondents had received an offer to increase their credit card spending limit (Fear et al. 2010, 17).

\[\text{Figure 3.2 – Aggregate Australian Credit Card Limit, 1985-2010 (RBA 2010a)}\]

\(^3\) The ‘Big Four’ refers to the National Australia Bank (NAB), Commonwealth Bank of Australia (CBA), Westpac, and ANZ National Bank.
Figure 3.2 illustrates the resultant rapid growth in the aggregate credit card limit level. Furthermore, the ‘no-surcharge’ policy of major credit card providers prohibits there being higher point-of-sale costs associated with using credit cards relative to other means of payment (which are much cheaper), effectively hiding the cost of credit cards at the point-of-sale, thereby ‘inefficiently’ removing disincentives for the use of credit cards (Katz 2001). Together, these practices are evident in the rapid growth in the average number of credit card transactions per capita, having tripled from an average of 17 per annum in 1997, to 56 in 2004 (Lowe 2006).

Consumer advocate groups, such as the Australia Institute, conclude that these debt-pushing practices are indicative of the anti-competitive deregulated banking industry (Fear et al. 2010, 29). Both debt-pushing and rising household debt pre-dated the take-off of securitisation in Australia, however, and cannot be said to be a singular result of originators’ incentives to push-debt in order to securitise these loans. By 1988 consumer groups were already concerned with rapidly rising Australian consumer debt levels as banks were ‘marketing credit rather than rationing it’ (Singh 1992, 49).

This concern was part of a wider historical trend towards a culture of normalised debt-financed consumption, already underway in Australian consumer behaviour. Australians’ consumption behaviours were shifting rapidly from those of a ‘saving society’ based in deposits with regulated banks, to one in which consumers’ appetite for credit and new financial investment opportunities in the 1970s and 1980s was outpacing the deregulation initiatives of the Government and the RBA (Figure 3.3)(Singh 1992). As Melleuish (1997, 42) comments;

Whereas formerly banks had been places where one ‘saved for a rainy day’, they now became sources of borrowed money to be used to purchase goods. The introduction of the Bankcard in 1975 helped accelerate the process of transforming Australia into a full-blown consumer society. The rate of savings fell as, in a high-inflation world, it made more sense to borrow than to save.
Hence, the securitisation of credit card debts has been more opportunistic than causative. Securitisation has facilitated the recent growth and profitability in the extension of credit card debt to Australian households but could not simply be imported into Australia without wider transformations in household consumption patterns. Moreover, the dramatic decline in net household saving since 1980 eroded traditional deposit-based funding sources of credit card providers, notwithstanding the spike in saving behaviour during the recent financial downturn (Graph 3.3). In response to these pressures, the expansion and securitisation of credit card debt pools provided a convenient alternative source of funds, rather than a predetermined model of profitability.

Financial deregulation and growing consumer appetite for debt are thus mutually reinforcing, with innovative securitisation techniques enabling the extension of credit to a wider and wider pool of customers. In the context of underemployment, growing income inequality and broken work patterns, as well as a growing culture of individualist consumerism, households have seized such opportunities, taking on increasing amounts
of debt to supplement their consumption habits (Rafferty & Yu 2010). The deregulated financial services industry did not simply manufacture household indebtedness, but the growth in credit extension enabled by securitisation and the need to continually turnover debt pools, are crucial components in the exacerbation of this trend.

**The Competitive Evaluation of Cardholder Behaviours**

The securitisation of credit card debt (and the associated debt-pushing) has, however, transformed the significance of this debt in terms of the structural dynamic between the household and the financial system. In the pre-securitisation ‘productionist’ era, the relationship of households and the financial system was mediated through a one-to-one relationship with the lender – households borrowed money from a credit provider and repaid this amount plus interest, constituting the profit for the lender (Froud et al. 2001). Through the securitisation of credit card debt repayments, however, households become direct providers of the income streams which underlie the commodities traded in ‘the coupon pool’ of global financial markets (Froud et al. 2001).

As with any globally traded security, the risks associated with the underlying collateral being traded must be assessed. CARDs, however, have no underlying asset acting as collateral (such as the house in the case of an RMBS) making the loan ‘unsecured’. In the case of CARDs then, the proxy underlying collateral is actually the behaviour of the accountholder itself. Through the securitisation of credit card debts, accountholders are transformed from being one end of a bilateral relationship with lending institutions, into micro units of global capital accumulation.

These accounts are evaluated through the competitive trading of their associated securities on secondary markets. In the ‘pre-securitisation’ model, the originator has a one-to-one relationship with the borrower and is fully exposed to a potential default on the loan. With securitised loans, once the originator on-sells the CARD to investors, the investor takes on the risks associated with the loan (although it is the originator who
initially assesses the accountholder). This conflict of interest of the originator was examined in chapter two: to ensure both that the loan is accurately assessed, and to originate and on-sell as many loans as possible, at the highest possible risk rating (Aglietta & Breton 2001; Aalbers 2008). The disjuncture between who assesses the risk and who bears this risk (often called a ‘moral hazard’) transforms the purpose of the traditional assessment of the accountholder and stimulates the competitive evaluation of the proxy collateral underlying the CARD – the behaviours of accountholders (Schwarcz 2009).

The traditional evaluation of credit card accountholders is performed by the account originator. In the ‘productionist’ or ‘retail banking’ model of credit card extension, the risk associated with the account is assessed solely by the credit provider in order to determine the ability of the debtor to repay the principal and the interest, a trust-based relationship between the lender and borrower (Aglietta & Breton 2001). This requires a relatively small amount of information pertaining to income, assets and credit history (Aglietta & Breton 2001). In the securitisation model of credit card extension, however, this evaluation enables these accounts to be transformed into securities. Increasing amounts of information about the account are needed to assess the expected level of spending, the turnover on this amount and potential for overdraft and other fees. The assessment of credit card accounts rely upon up to 450 separate criteria pertaining to the cardholder’s behaviour with these attributes ranked and cross referenced with new risk assessment technologies developed since the mid-1990s (Aglietta & Breton 2001; Gill 1997; Bertola & Hochguertel 2007; KPMG 2001). The financial market calculus works on the ‘law of large numbers’, meaning the accurate collection of this data is essential. Accounts with an inadequate amount of information (‘low-doc’ loans) have a lower chance of being securitised, while even a high-risk account with accurate information can be securitised easily (Bailey et al. 2004, 50; Aglietta & Breton 2001, 437; Lumpkin 1999). This practice of securitising ‘low-doc’ loans has come under increasing criticism in the wake of the US sub-prime crisis, where the over-optimistic securitisation of ‘low-doc’ loans engendered systemic fragility and eventually sparked a wave of crises (Krahnen & Wilde 2006; Debelle 2008).
The accuracy of this assessment facilitates the ‘subordinating’ of a security by an SPV. In the subordination process, a security is divided into ‘tranches’: separate sections of the same security which attract different risk and interest ratings as they are repaid in an hierarchical order (FDIC 2007). The ‘senior notes’ are repaid first, receiving a lower risk rating (Black 2008; Bailey et al. 2004). The ‘mezzanine’ notes present mid-range risk as they are repaid second, while ‘junior’ or ‘subordinated’ notes present the highest risk as they are repaid last (Getter 2008; Black 2008; Gurtler et al. 2008). The credit card receivable accounts are classed and then sorted into these tranches using the originators assessment, which helps determine the prospective return on investment relative to the associated risk.

As repayments are made on underlying credit card accounts, the income streams are pooled and are then paid out to investors in a descending sequence. As such, AAA rated ‘senior notes’ carry much lower risk exposures than sub-prime ‘subordinated’ securities and would thus attract much lower spreads (the difference between the interest on the security and the ‘risk-free’ returns on investment from government bonds or the London Inter Bank Overnight Rate, LIBOR) (Getter 2008; Bailey et al. 2004; Gurtler et al. 2008; Management 2009; Dwyer 2004). The converse is also true, however, with lower tranches attracting higher interest yields due to their higher risk exposures (Debelle 2009; Bailey et al. 2004). The assessment of the expected performance or the ‘quality’ of the account, determines its placement in the subordination process (Lumpkin 1999).

The subordination process enables investors to decide on the level of risk which they wish to take on relative to the prospective return on investment (Gurtler et al. 2008; Management 2009). As the risks associated with the account are borne by the investor (and not the originating institution) the underlying accounts are scrutinised, cross-referenced and evaluated in terms of their prospective performance. The various tranches will attract different risk ratings given by ratings agencies, but also a price competitively determined by prospective investors’ expectations of the returns on the underlying accounts relative to their associated risk. As Aglietta and Breton (2001, 437) comment,
‘the diversity of risk characteristics has been repackaged into a one-dimensional structure of spreads above conventional benchmark price’.

This process effectively collapses the particularities of credit card debts into a singular measure of the expected return on investment relative to the associated risk (Martin et al. 2008). What was formerly an illiquid one-to-one relationship between the accountholder and the credit card provider is transformed into a liquid commodity commensurable with other value forms on secondary markets. The prospective performance of credit card accounts in Australia could be evaluated relative to the return on income streams from a hospital in the US, to Indian tech stocks, and so on. Through this process, the underlying credit card debts, now in the form of a commodity, are competitively evaluated, traded and scrutinised on secondary security markets.

This process of securitisation creates interdependency between households and financial markets. Households are reliant on the liberal credit extensions enabled by securitising these debts, and the growth and stability of the financial system is reliant on households taking on and consistently rolling over this debt. In short, there is a synchronisation between the operation of financial markets and households created through the process of securitisation. These underlying accounts are never fully commodified; however, there are always particularities about the underlying accounts that cannot be completely decomposed into this singular measure of value. The competitively determined price in secondary markets simply provides a proxy evaluation of the expected performance of the underlying accounts.

**Households Scrutinising Households: Coupon Pool Capitalism**

The interdependency created between households and financial markets through the securitisation process is indicative of the embedding of the financial system in the behaviour of households. The above analysis could be misunderstood as conceiving household behaviour as subject to a solely exogenous financial market scrutiny. This
section is thus concerned with demonstrating that although household behaviours are now subject to the scrutiny of financial market calculus; this calculus is increasingly stimulated by the savings and investment of households. Previous analyses have examined how household savings and investment flows into the ‘coupon pool’ reflexively discipline households in regards to household retirement savings in superannuation funds and investments (For example, Erturk et al. 2005; Erturk et al. 2007). Alternatively, this section examines the competitive evaluation of Australian credit card debts as collateral in the short-term money market largely funded by household ‘saving accounts’ (retail savings accounts which offer high short-term interest rates) and term deposits (Davies et al. 2009). This relatively small ‘coupon pool’ shows not only the further competitive evaluation of credit card accounts, but also how households saving drives the ‘search for yield’ that stimulates this scrutiny.

SPVs require capital in order to purchase debt pools to then issue these debt pools as securities (Gorton & Metrick 2009a). This capital predominantly comes from the short-term money market at a comparatively low interest rate, given the low risk associated with short-term loans (Gorton & Metrick 2009a). The SPV borrows money from lenders on this market, in exchange provides bonds as collateral, usually short-term securities – including CARDS and Asset-Backed Commercial Paper (ABCP, ABCP is also backed by credit card debt pools but currently only 1%)(Gorton & Metrick 2009a; Debelle 2007). This ‘repurchase agreement’ (REPO – a nickname given to the short-term money market due to the prevalence of these repurchase agreements) is very short-term, often overnight (Kearns 2009). At the end of the agreement, the capital is paid back to the lender, and the collateral is returned to the SPV. The agreement can, however, be ‘rolled over’, (replaced by an identical agreement) that retains flexibility while extending the contract (Gorton & Metrick 2009a). The lender gains above-market returns from repayments from income streams associated with the CARD while retaining flexibility. The SPV receives the capital to purchase debt obligations, to repackage them as securities and to on-sell them to investors. Through this arbitrage, the SPV gains the difference between the relatively low cost of borrowing in the REPO market and the sale price of
the security (which is usually above the REPO rate, yet below the repayments on the underlying asset) (Gorton & Metrick 2009a).

The value of underlying collateral exchanged for capital in the REPO market, however, depends on the market judged value of the underlying account pool. The expectations of the performance of the underlying assets are reflected in the REPO rate (the rate at which the quantity to be exchanged for cash is calculated). The determination of this rate becomes a *de facto* judgement on the expected risks relative to the returns on the underlying debt in the security, further evaluating the performance of these accounts.

Moreover, provision of the security may need to be accompanied by a ‘haircut’, an over-collateralisation of the security reflective of potential liquidity (Gorton & Metrick 2009a, 6; Kearns 2009). This liquidity risk is reflective of the resale potential of this underlying pool – its liquidity (Gorton & Metrick 2009a). The more doubtful the investors are of demand for that type of security drying up, the larger the ‘haircut’ that is needed to compensate for this risk (Gorton & Metrick 2009a; Kearns 2009). The size of the ‘haircut’ is therefore also *de facto* judgement on the performance of the underlying assets, a price which is competitively determined in the REPO market. A rapid increase in the size of the ‘haircut’ signifies a decline in the demand for that type of security. Indeed, this is exactly what happened during the recent sub-prime mortgage crisis in the US (Gorton & Metrick 2009b). Concerns with the liquidity of RMBS precipitated a sharp rise in the haircut on these securities thereby reinforcing their illiquidity, turning them into so-called ‘toxic assets’ (Gorton & Metrick 2009b).

The Australian money market actors (that are lenders in the REPO market) draw their capital from money market savings funds, comprising of high interest rate retail ‘savings accounts’ (26%) and term deposits (18%) (Davies et al. 2009). The involvement of these lenders in the REPO market signifies that much of the money used to re-capitalise SPVs, and hence to issue CARDs, actually comes from these savings accounts. In effect, the savings of Australian households are being used to purchase and repackage

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4 These figures refer to the major Australian banks, rather than smaller money market lenders.
their credit card debts. Moreover, through the competitive evaluation of underlying credit card accounts used as collateral in repurchase agreements – Australian household savings are effectively scrutinising household credit card debt and the behaviours of account-holders.

The circuitry involvement of households in the short-term money market is indicative a significant wider shift in their structural role in the political economy. Households are the providers of income streams for the creation of globally-traded commodities and are scrutinised as a result of this provision, while they are also beneficiaries of the creation and scrutiny of these products. Through their savings and investments, households stimulate growth and innovation in the financial system, driving the ‘search for yield’ and the creation of these novel financial instruments (Montgomerie 2008; Erturk et al. 2007). The ‘democratisation of finance’ is transforming the structural dynamic between households and financial markets, in so far as households are both ‘subject’ to novel financial innovations, such as securitisation, but also have an interest in the growth and perpetuation of these practices (Erturk et al. 2007, 554).

**Conclusion**

The securitisation of credit card debt is creating a new dynamic between households and the financial system. In the ‘productionist’ era of retail banking, household assets and liabilities were typically only indirectly related to financial markets, mediated through intermediaries. In this ‘coupon pool’ era, however, households’ assets and liabilities are being utilised for the creation of globally traded commodities. The transformation of these assets and liabilities is indicative of the wider shift in the structural role of the household in the contemporary financial system, moving from being part of an intermediated relationship to a series of synchronised interdependencies – effectively embedding the financial system in the behaviours of households.
The financialisation of households through the securitisation of credit card debt is also indicative of a significant epistemological shift in the contemporary political economy. Through the increasingly pervasive web of derivatives and securities diverse behaviours, assets and liabilities are conceptualised as a set of ‘exposures’: as potential sources of value accumulation. A process which is described by Leyshon and Thrift (2007, 98) as the ‘the capitalization of almost everything’. In 2009, 76.6% of Australian households held an average $2300 outstanding credit card debt, totalling over $47 billion (ABS 2009b, 33; ABS 2010; RBA 2010a). The expectations, behaviours and characteristics of these Australian households are being competitively evaluated through these liabilities. Through their debt, households are brought into a system of competition and evaluation, not as ‘households’ but as micro units of capital accumulation (Rafferty & Yu 2010; Bryan 2008).
CONCLUSION

This paper has challenged the notion that developments in the financial system are somehow ontologically distinct from the everyday actions and behaviours of households. The financial system is not a self-contained entity which occupies a distinct locale or that operates in a distant or ‘de-coupled’ fashion (Montgomerie 2008, 235). Rather, the securitisation of an increasingly diverse range of income streams is embedding financial markets in the behaviour of households – the everyday actions and operations of households are becoming increasingly financialised.

Conceptualisations of the financial system as a self-contained entity obscure the dynamism of financial processes. This is the difficulty in analysing financialisation, as financialisation is ‘simultaneously [a] subject and object of analysis – something to be explained and a way of making sense of what is going on around us’ (Martin 2002, 8). A key challenge for financialisation theorists is to conceptualise the dialectic of the finance system as an object but also as a process by which other phenomena might be explained. By framing analysis of the financial system in terms of financial processes, financial analysis then becomes not simply a study of efficient risk transfer markets or exploitation by financial ‘experts’. Finance is not just a system of risk transfer or liquidity provision, it is a series of processes that embody a particular epistemology which enable the commensuration of diverse value forms in terms of their role in value creation – their expected return on investment relative to the associated risk.

Through the transformation of outstanding assets and liabilities of households into globally traded securities, household actions are linked to financial markets. Household debt is not a simply static stock with specific repayment obligations and associated risks; it is also a flow which underpins the growth and expansion of financial markets. Securitisation of these flows is transforming the role of households in relation to the financial system from simply being a consumer or an investor, to being a direct source of
capital accumulation. The structural dynamic between household and the financial system is increasingly moving from one intermediated by deposit-taking institutions, investment funds and brokers to a series of direct interdependencies.

Through this direct linkage households are conceived of in terms of a financial logic: as a set of calculable exposures (Bryan & Rafferty 2006). Households are thus conceived as units of capital accumulation, as ‘micro firms’ (Bryan et al. 2009). Each exposure of a household can then be isolated, on-sold and competitively evaluated on secondary markets. By framing finance as a process, this paper has conceptualised the underlying process of securitisation as embodying this epistemological and social shift. Although innovative financial processes such as securitisation are said to be ‘disembedding’ the financial system, they are doing just the opposite: they are embedding modes of financial calculus into the diverse behaviours of households.

While in The Financialization of Daily Life (2002, 101) Martin highlights the ‘socialisation of finance’ through a growing culture of finance manifest through media, education and literacy campaigns, this conceptualisation of ‘financialisation’ emphasises the notion of choice (or indeed, the constrained choice) of whether or not to ‘subject oneself to the reason of finance’. Through an analysis of the financialisation of household consumption through the securitisation of credit card debt, this paper compliments Martin’s analysis by demonstrating that this ‘choice’ is quite illusory. Through acts that are now commonplace in a financialised economy which are seemingly disconnected from the operations of ‘high financial’ markets – such as using a credit card – households are brought into a system of competitive calculation and accumulation.

The securitisation of credit card debt is indicative of the dynamism of the financialisation process that transforms seemingly ‘non-financial’ and unrelated behaviours into the basis for the growth of innovative financial products. It is this financialisation that lies ‘behind’ the issues of household debt, and for the most part, ‘behind’ the seemingly unrelated decisions of households. In addition to a conscious ‘socialisation of finance’ (which emphasises households’ active participation in financial
markets) this paper has demonstrated that financialisation is occurring organically through the normalisation of widespread debt-financed consumption.

Moreover, while the ‘risk shift’ narrative aptly poses that households are increasingly subject to increasing individual and systemic risks, concerns with the ‘over-optimism’ of financial institutions and investment funds that invest in riskier and riskier investments overlook the fact that, through their saving and investment practices, households are brought into, and have an interest in, the ‘search for yield’ that drive these novel financialisation processes.

The movement towards a so-called ‘ownership society’ (Rafferty & Yu 2010, 8) and the ‘democratisation of finance’ effectively synchronises the interests of households with the growth and innovation of the financial system (Erturk et al. 2007, 554). In this ‘cult of equity’, households, firms and the state are all ‘stakeholders’ or ‘shareholders’; the short-term interest of these households is in the ongoing propagation of the current economic model of accumulation, however fragile it may be (Montgomerie 2008, 237; Froud et al. 2001; Bryan 2008). As Martin (2002, 177) highlights, ‘the shareholder and the stakeholder are meant not only to infuse capitalism with its needed life blood, but to orient people as to how to live through the market’. Increasingly, the onus is placed on households to fit the model of ‘self-policing’ financial managers who accumulate assets through taking on debt: ‘the household has been encouraged to think of itself as a unit of financial calculation akin to a business’ (Martin 2002, 86; Rafferty & Yu 2010). Thus, while households are subject to increasing risks through the financialisation of the political economy, due to their increased holdings of market-indexed investments, any reaction against the ongoing profitability of financial markets effectively becomes a double-edged sword.

This is the fundamental contradiction. While critics of contemporary finance highlight the dangerous practices and speculation of these ‘risk transfer markets’, they overlook the interests of households in the perpetuation of the financialisation process. While this may seem similar to the well trodden ‘too big to fail’ narrative that describes
the centrality of very large firms to economic activity, the ‘too big to fail’ narrative portrays this as an isolated effect centred on a handful of firms (Konings 2009, 119). Through the securitisation of household assets and liabilities, the role of households as the basis of globally traded securities spreads exposure to the performance of these households through the financial system, thereby creating the same ‘too big to fail’ effect, but with the ‘performance’ of households directly implicated in this. Whether or not household wealth increases, and the profitability of financial institutions on which that relies, is increasingly contingent on the performance of labour as capital (Rafferty & Yu 2010; Bryan et al. 2009).

Through the mass extension of credit, and the evaluation of the financial decisions of individuals through the securitisation and trading of these accounts, individual behaviours are effectively synchronised with those of capital (Bryan 2008; Rafferty & Yu 2010; Martin 2002). This financialisation of households creates interdependency through the value of these commodities being dependent on the expectations, actions and ‘performance’ of households as units of capital. When these units of ‘capital’ fail to perform (through defaulting on their liabilities more often than is accounted for by risk assessments), is it the financial markets that ‘failed’? Or is it these individuals who did not adequately performing their new roles? With an increasingly interdependent political economy based on risk assessments of the expectations and performances of uncertain individuals, the answer to this question is hardly a simple one, but to lay blame solely on the financial sector is to overlook the role of consumers demanding these services, households’ interest in the growth of these markets as ‘investors’, and governments legislat ing to encourage complex innovations.

The recent US sub-prime crisis is indicative of this effect. Analyses of the recent financial crisis often portray its causes as the ‘spectacular failure of financial markets’ (Quiggin 2008, 15). This perspective is useful in highlighting the failure of financial analysts and actors to adequately identify and account for the risks associated with rapid financial innovation and expansion. Yet underneath these developments is the failure of ‘labour to perform as capital’, and the epistemology that enables this fictitious

The US sub-prime crisis is indicative of the fragility embodied in the transformation of diverse value forms, such as household behaviours, into units of capital which then come to underpin economic activity. For the pricing of these assets is not an objective process, it is a way of representing these actions and behaviours in terms of ‘risk exposures’. The financialisation process can never actually transform these measures into actual commodities, there remains uncertainty, irrationality, and particularities (Debelle 2009). As Dean (1999, 177) highlights,

there is no such thing as risk in reality ... Risk is a way – or rather, a set of different ways – of ordering reality, of rendering it into a calculable form. It is a way of representing events in a certain form so that they might be made governable in particular ways, with particular techniques and for particular goals.

Langley (2008a, 26) adds,

the category of ‘risk’ can be seen as distinct from uncertainty, the former as the statistical and predictive calculation of the future and the latter as non-calculable future volatilities that are beyond prediction.

Together, the inherent subjectivity and overoptimism in the pricing of risk exposures makes the growing interdependence between financial markets and households as units of capital increasingly fragile. Advocates of ‘risk transfer markets’, such as Shiller (2003; 2008) and Debelle (2009), have a ‘fatal pride in their ability to construct, calculate and control risk’, as this process of commodifying the household can never be complete (Wigan 2009, 168).

Post-Keynesian theorists highlight the endogenous instability engendered through the over-optimistic pricing of risk and debt-led accumulation. The ‘regulationist’ financialisation theorists identify the increased size, power and profitability of financial markets as a key indicator of ‘financialisation’, doubting the longevity of a system of
wealth-based accumulation that must eventually ‘re-anchor’ to real value creation (Krippner 2003, 3). Critical political economists identify the exploitative nature of recent financial market growth, and the ‘risk shift’ onto households associated with an increasingly financialised political economy. Each of these strands of research is useful in understanding various features of the debt-led financialised contemporary mode of accumulation; however, for the most part they largely overlook the deeply social nature of financialisation.

Highlighting that there has been a marked transferral of risk onto households captures much of the larger trajectory that is currently occurring, yet misrepresents the significant social transformation this entails. Households have always faced ‘risks’, yet these ‘risks’ are what would be understood more intuitively as synonymous with ‘uncertainty’. When the ‘risk shift’ narrative argues that households now face ‘risks’, this implicitly affirms the orthodox notion of ‘risk’ – a calculable exposure (Lash 1999). With this notion of calculable risk, comes the onus on households to manage these risks in the manner of firms, both an overly optimistic conclusion given the numerous constraints on households to do so, and one that abdicates a role for the state in the amelioration of these risks. Hence, while the ‘risk shift’ narrative points to a redistribution of risk, this notion overlooks the significant social transformation signalled by the discursive creation of ‘risk’ as a calculable and manageable representation of the future uncertainty faced by firms as well as households. The process of financialisation is not just ‘affecting’ households, it is dialectically transforming them.

Financialisation is often portrayed as solely an economic development, however, the epistemological shift underlying financialisation, and embodied in the securitisation process, is as integral to this process as the aforementioned features. This epistemological shift occurs both in the way diverse behaviours are conceived through their financialisation (such as this paper has identified in regards to household behaviour and credit card securitisation), as well as in the way these actors are pressured to behave – as a set of calculable and tradable risk exposures. Financialisation is ‘embedded’ in the behaviours of households in terms of the commodification of their behaviours, but as well
as in the transformation of the self-reflexive world view of these households as ‘responsible financial managers’.

The increasing synchronisation of risk exposures, together with the synchronisation of ‘stakeholder’ interests, make this debt-led model of accumulation somewhat durable, yet ultimately crisis prone. This is the contradictory position in which households now find themselves through the ‘democratisation of finance’ – that households are subjects of financial calculus and are increasingly exposed to both individual and systemic risk, but also have an interest in the ongoing ‘search for yield’ that drives these processes that are integral to financialisation. Froud et al’s (2001, 287) comment on the US and UK below captures the nature of debt-led accumulation aptly and could well be applied to the contemporary Australian political economy,

The patrimonial contradiction is that shareholder value is then created unstably through the flow of middle class savings onto the market which feeds rising stock prices and corrections. In the US and UK form, widespread share ownership turns out to be a risky habit which, like smoking in bed, combines comfort with the risk of immolation.

In this context, advocates of regulatory reform must address the holistic nature of the financialisation process as emphasised in this paper. To simply support the ‘re-regulation’ of speculative financial transactions overlooks the deeply embedded nature of the economic and social process that is debt-led financial accumulation. To conceive of an alternate reform agenda, we must engage with the wider social transformation that is financialisation, not simply to regulate its speculative excesses.
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