In credit we trust?: An analysis of US households and their consumption of credit from 1950-2007 through the lens of financialization.

by Amanda McCormack

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This work contains no material which has been accepted for the award of an other 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 references is made in the text of the thesis.
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Acronyms
ABS – asset backed securities
AERAF – arts, entertainment, recreation, accommodation and food service
AIA – annual industry accounts
BEA – Bureau of Economic Analysis
BLS – Bureau of Labor Statistics
CES – Consumer Expenditure Survey
CPI – consumer price index
EHSA – education, health and social assistance
FFA – Flow of Funds Account
FIRE – finance, insurance and real estate
GDP – gross domestic product
GSE – government sponsored enterprise
HEL – home equity loans
MBS – mortgage backed securities
NPISH – non-profit institutions serving households
PB – professional and business services
RT – retail trade
SCF – Survey of Consumer Finance
The Fed – The Federal Reserve
US – United States of America
Chapter 1: Introduction

As we expand debt in the process in want creation, we come necessarily to depend on this expansion. An interruption in the increase in debt means an actual reduction in the demands for goods. Debt, in turn can be expanded by measures which, in the nature of the case, cannot be indefinitely continued. (Galbraith, 1973 [1958], p. 170)

With household assets rising as well, the ratio of net worth to income is currently somewhat higher than its long-run average. So long as financial intermediation continues to expand, both household debt and assets are likely to rise faster than income… Overall, the household sector seems to be in good shape, and much of the apparent increase in the household sector’s debt ratios over the past decade reflects factors that do not suggest increasing household financial stress. (Greenspan, 2004)

The concept of financialization within the social sciences is a relatively new area of academic inquiry that provides analytical tools to understand changes in the pattern of accumulation that exists within dynamic contemporary capitalisms (Engelen, 2008; Goldstein, 2009). As a concept, financialization does not purport to be a totalizing concept that will hold for all places, spaces and times (Froud & Johal, 2008). The newness of “financialization” as a type of discourse and analytical tool means that as a term it does not yet have a common definition, however there have been identified clear tendencies that enable this conceptual tool to move between different political economic and heterodox analyses whilst maintaining explanatory purchase.

Financialization can be broadly defined as the change in the generation of profits, within in an economy, which are increasingly made through financial means, and are not based on production’ (Krippner, 2005; Orhangazi, 2008b). Financialization can be thought of as a modified Marxian circuit of capital accumulation, where investment in production does not take place and instead becomes: [M] – [C] – [M'], where M is the initial money capital, C is the financial commodity and the markets in which it is used, and M’ is the new money capital accumulated from that initial money capital investment (Krippner, 2005; Marx, 1990a [1976]). Coupled with the generation of profits through increasingly financial means are the ways the economy and broader social institutions and practices support the existing structure of accumulation, to provide stability and predictability (Jessop, 1997). With literature that analyzes...
specifically how the changes in the generation of profits within the economy, in particular that of the United States of America (US), can be understood as financialization, this thesis instead focuses on US households, and how financialization can be used to understand changes that have occurred between 1950 and 2007 that have impacted on households’ accrual of debt. In this way Epstein’s (2005, 3) broad definition of financialization is helpful, ‘the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies’. Krippner (2005, pp. 174-175, 181-182) centering her research as financialization as a pattern of accumulation provides an ability to characterize financialization as multi-dimensional framework for understanding how, at macro and micro levels, economy functions, and in part this thesis will utilize that categorization for understanding how financialization impacts on US households.

This thesis starts its analysis at 1950, the beginning of the post-war economic boom, until 2007, before the start of the global financial crisis, focusing on changes to US households, trends in households’ credit consumption, and understanding these changes through the lens of financialization. There have been changes in US households’ credit consumption, that are particularly acute from around the 1980s – the time that is broadly commensurate to when changes to the US economy can be categorized as the process of financialization (Crotty, 2005; Epstein & Jayadev, 2005; Krippner, 2005; Orhangazi, 2008a; Stockhammer, 2008). The thesis will explore how financialization has impacted households and their consumption of credit, and where possible their differentiated impacts based broadly on income quintiles and net worth percentiles, including the issues of employment, income, credit consumption, and what role the government has had in relation to supporting a financialized mode of existence for households. Further, with a focus on the increasing level of debt held on households’ balance sheets, there will be an analysis of the different types of household credit, identifying trends in relation to households’ debt holdings, and how these trends impact on different household groups. It should also be noted, that this thesis is not suggesting that financialization is a pattern of accumulation that has come into existence recently, but is instead locating what is happening within US households as part of the existing pattern of financialized accumulation that is occurring within the contemporary moment as a form of capitalism.

For this thesis, US households are the site and unit of analysis. In households being the site and unit of analysis, this thesis recognizes that households are heterogeneous and have multiple characteristics that are not easily ascribed to each and every household, and that levels of wealth
and income are likely to have differential impacts, especially when examining financialization. The economic data collected by US Government agencies can give a broad picture of trends existent within households, especially as it relates to different income quintiles and wealth percentiles. To be clear, it is at no time assumed that each and every household behaves in exactly the same way, but there are some aspects of economic activity, especially in the identification of broad trends, that can be generally representative of the likely impacts on households.

This thesis will use the Keynesian economic accounting framework, and social and economic data that is available publicly by various US Government departments. The use of this data is understood as an approximation, is not perfect in its collection, is not an exact replica or indication of what happens in each and every sector and institution in society as it relates to economic and social interactions (especially the household), and is a guide to understanding broad trends in US households. The use of US Government data sets is being utilized to be able to better identify broad trends that have and are happening within US households. The identification of these trends will add to the existing body of work that has analyzed the US macro-economy to understand how to identify and understand financial pattern of accumulation, and the broader social influences that enable this structure of accumulation to occur. Further in focusing on the household, the small pool of current literature that discusses the impact of financialization on US households is broadened to focus on the differential effect financialization has on different households, especially as it pertains to relative wealth and income levels, and the consumption of credit.

The main mode of interrogation that this thesis utilizes is historical quantitative and qualitative comparative analyses, in particular the two periods of 1950-1979 and 1980-2007, recognizing that those dates are not rigid, and there is likely to be some cross over between the notional end and start dates of the 1970s and 1980s. In using the variety of US Government data sets, this thesis will identify when the data is aggregated and disaggregated and to what degree the disaggregation occurs. Further given the interrogation includes differential household analysis, where there are difficulties in using aggregated data especially to disaggregate, this thesis will endeavor where aggregated data is not easily disaggregated to find disaggregated analogues, and this thesis will note the instances where this occurs.

Financial markets and systems are an important part of capitalist patterns of accumulation. It is
generally from the financial markets and institutions that the initial money used for investment purposes is originated, as illustrated in the Marxian circuit of accumulation (Marx, 1990b [1976]). With increasingly complex webs of relationships between the financial sectors and real sectors, there requires further analysis of households and their part in this web. It is for this reason that this thesis views the real and financial sectors as autonomous and interdependent at the same time.

Chapter 2 starts from analyzing the financialization as phenomena and concept. The initial economic analysis points to the importance of households in the US economy, and points out the increasing levels of debt that households, aggregated, have taken on, and the declining levels of wages and salaries as a percentage of total personal income. It is through this economic analysis that the increasing importance of the financial services industry is surfaced, however its position seems to be a contradictory one. This chapter finishes with an assessment and analysis of the current literature on financialization, looking at the broad themes and theoretical underpinnings of the financialization corpus.

Chapter 3 then explores identified trends in the US Flow of Funds Accounts in relation to aggregate levels of households’ indebtedness. Chapter 4 takes up the issue of what social and economic changes have taken place in households pre and post 1980s, at different income and wealth levels, as it pertains to salary and wages and the changing structure of the labor market, households incomes, and government policy. Chapter 5 examines how the evidence presented is part of financialization and its impacts on US households, utilizing the multi-dimensional framework described by Krippner’s (2005, pp. 174-175, 181-182) for understanding the operation of financialization within the economy.

This thesis in developing the analysis of US households and their consumption of credit in this way, is extending the limits of financialization research to show that the concept of financialization has impacts and continues to impact on, and in particular, the middle and lower income and net wealth households in the US. It is also envisaged that in undertaking the analysis in this way that with financialization being applied to new empirical terrain that there is a partial reworking of the concept of financialization, and that this thesis provides another avenue through which to understand this phenomena as it applies to US households. Lastly, this thesis has explicitly eschewed developing macro-economic models and econometric tests, instead seeking to distil empirically stylized information, thereby contributing to understanding which
aspects of financialization are important as it relates to US households, and the US economy and society.

As a side note, as most of the literature and all of the data being used in this thesis comes out of the United States of America, this thesis will be using the US system of English spelling.
Chapter 2 - Financialization as phenomena and concept – brief economic analysis and literature review

*The development of finance capital changes fundamentally the economic, and hence the political, structure of society* (Hilferding, 2006 [1910], p. 337).

2.1 Introduction

Financialization, as an academic concept, and as a searchable key word in the social science discourses, specifically to political economy and heterodox economics, is relatively new (Engelen, 2008, p. 112; Goldstein, 2009, p. 453). Finance is best understood as the provision of money. As a concept, financialization is generally understood as, ‘the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies’ (Epstein, 2005, p. 3). Epstein and Jayadev (2005), and Krippner (2003) characterizes this increased role of financial motives as a change in the pattern of accumulation, in the post-war economic period, especially as it relates to where in the broader economy profits are generated. Thus the concept of financialization functions to examine the increasing role of the provisioning of money in the social and economic spheres, focusing analysis on the attendant relationships between its allocation, actors, institutions and instruments, in the performance of the domestic and/or international economy.

The financial system can be understood as the means to ‘channel the funds of savers in an economy to those who need funds to finance real economic activity’ (Shin, 2010, p. 96). Within orthodox economic approaches there are four models that can explain how the financial system operates, each with the household as an integral part of the system (Shin, 2010). Having an understanding of the orthodox economic models of financial systems is useful for understanding financialization and its attendant methodological processes and practices.

Within orthodox economics, there are four financial systems, increasing in complexity, that explain the role of households in the financial market. First is that of ‘yeoman farmer economy’, where everyone is identical, and households and firms are the same identity (Shin, 2010, p. 96). Second is the simple financing relationship, where households directly finance firms (Shin, 2010, p. 97). The financial system organizes, through appropriate social and legal regulation, the transfer of funds from the household directly to the firm and for the firm issues debt on its assets/productive activities – a type of bond. Third is financial intermediation where a deposit-
taking bank is also involved in acting as an intermediary between the firm and household² (Shin, 2010, p. 98). The firm can directly borrow from the deposit-taking bank, as well as issuing debt directly to households; households deposit their money into the deposit-taking bank and can also accept directly firms’ issues of bonds. Lastly is a securitization system of financial intermediation (Shin, 2010, pp. 99-102). This fourth system of finance includes other financial intermediaries’ involvement in the financial system, as well as deposit-taking banks, firms and households³. Securitization is the ‘practise of parceling and selling loans and other debt claims to other financial institutions, who then hold those purchased claims and then issue liabilities backed by such claims’ (Shin, 2010, p. 99). Financial intermediaries and deposit-taking banks can also be borrowers and lenders to each other. In this way the securitized system of financial intermediation creates increasingly complex financial relationships that become more dependent on the conditions of capital market conditions (Shin, 2010, p. 102). It is this increasingly complex web of financial systems that financialization, in analyzing both economic and social conditions, takes up in its examination, arguing that what occurs in financial systems is not divorced from the social environment.

Two issues arise from the orthodox models outlines. There is a reliance on households, in aggregate, being a net saver in an economy (Shin, 2010, p. 102). Orthodox economics see finance and the financial markets operating to invest in real economic activity (Shin, 2010, p. 96). This thesis argues that under a financialized pattern of accumulation, the reliance on households as net savers in the economy reduces and is not a reflection of what is happening due to a variety of factors (Eatwell & Taylor, 2001, pp. 121-126); these will be explored later in the thesis. In relation to the financial system operating to invest in the real economy, this thesis views the operation of the financial system as not, whether this is possible or not, differentiating between real and financial economic investment (Eatwell & Taylor, 2001, pp. 96-135).

In order to situate the thesis within the discourse of financialization, and illustrate the attendant phenomena, this thesis will first present selected data to demonstrate the increasing influence of finance in the US and US households, utilizing economic data. Secondly provide an analysis of the extant corpus on the concept financialization, through an exploration of the broad subjects

² This can also be described as the savings and loan model of banking, as it involves depositary institutions receiving money from depositors to be able to be loaned to others. This form of banking does not involve other financial intermediaries.
³ This can also be described as the financial model of banking, as it involves financial instruments, markets and processes, and financial institutions.
of analysis undertaken in the literature, and identify the main theoretical paradigms utilizing this concept.

2.2 Financialization as Phenomena – brief economic analysis

Financialization, taking a broad understanding, includes changes within the financial system as well as changes to the relationship between the financial and real sectors of the economy (Epstein, 2005, p. 3). Thus, there is likely to be changes at the macro and household levels of the economy that may be perceived through economic data collected by US public sector departments. The analysis of the households in the US through the lens of financialization begins with first exploring changes in gross economic data of the US economy. Analyses undertaken by Dumenil and Levy (2005), Epstein and Jayadev (2005), Krippner (2003, 2005) illustrate the rise of rentier incomes, those incomes derived from profits from financial market activity of the financial industry, in the macro-economy from around the 1980s onwards, and the changing structure and pattern of accumulation. Rather than restate that terrain of academic work, this section on the phenomena of financialization focuses on gross domestic product (GDP), household and personal incomes, and employment. It should be noted that the use of GDP is as a hybrid measure, measuring activity (output) and accumulation (profit component of national income) (Krippner, 2005, p. 180).
Figure 1: Components of GDP as a % of total nominal GDP 1950-2007

Utilizing the final demand/expenditure approach to measuring gross domestic product⁴, figure 1 illustrates the proportional shares of nominal GDP (Landefeld, Seskin, & Fraumeni, 2008). Of particular note is the rising proportion of nominal GDP made up of private consumption from the period of the 1980s onwards. The method of calculation for the consumption component⁵ of final demand calculated GDP is taken from data that estimates final goods and services to consumers that excludes sales to other businesses (Landefeld, Seskin, & Fraumeni, 2008, pp. 197-199). It can be reasonably assumed, from expenditure measured GDP, that the majority of consumption is undertaken by and/or made for US households. Therefore, as consumption of final demand GDP is the largest component in the US, households are major actors in the US economy.

⁴ Where the aggregate expenditure GDP consists of private consumption (C), investment (I), government expenditures (G), and net exports (X-M)
⁵ Consumption using the final demand approach to GDP starts with the addition of: total sales by producers of final goods and services, transportation costs, wholesale and retail trade margins, sales tax and imports. Deducted from this interim amount are: changes in inventories, exports, sales to business and sales to government.
Analyzing figure 1 further, illustrates that there has been a change in consumption by households, when examining the time period from 1950 to 2007. Average private consumption from 1950 to 1979 was 62.3% of nominal final demand GDP. As depicted in figure 1, the period from 1950 - 1979 had relatively stable private consumption. From 1980 to 1989 average private consumption rises to 64.3% of nominal GDP; in the next decade 1990 to 1999 this rises again to 67%. In the final decade of analysis, 2000 – 2007, average percentage of private consumption as a percentage of nominal expenditure calculated GDP rises to approximately 70%. Comparing the two periods, 1950 – 1979 and 1980 – 2007, there has been an increase in private consumption in the latter period, from the relatively stable former period. Further, this change occurring around the late 1970s/ early 1980s suggests further analysis is required to ascertain changes, in particular to the household.

Figure 2: Contribution to percent change of real GDP from 1950-2007

Source: BEA (table 1.1.2)

In examining figure 2, the data illustrates the major role consumption has in contributing to US real GDP growth, with some minor exceptions. Consumption generally makes up more than half of GDP growth in the time period shown, and appears to be the main driver of real GDP growth in the US, especially from about the 1980s onwards. Figure 2, viewed in conjunction with figure 1, also demonstrates and strengthens the importance of households in the US economy,
given the reasonable supposition of private consumption being largely undertaken by households.

To explore the changes in consumption, as it pertains to the household, an examination of US households’ savings and debt levels could, all things being equal, partially explain figure 1. Changes that could affect consumption in households are households’ levels of savings and/or indebtedness. A decline in savings and/or a rise in debt could be correlated to a rise in consumption.

**Figure 3: Aggregated US Households Savings and Debt 1950-2007**

![Graph showing aggregated US households savings and debt from 1950 to 2007. The x-axis represents years from 1950 to 2006, and the y-axis represents debt (proportion of disposable income) on the left and savings (% of disposable income) on the right.]

Source: BEA (table 2.1) & Federal Reserve Bank (FRB) Flow of Funds Accounts (FFA) (tables L1 & F100)

Figure 3 depicts, on aggregate, the level of savings and indebtedness of US households. Indebtedness was measured, on aggregate, using total household debt as a proportion of total disposable income. Savings was measured, on aggregate, using total household savings as a

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6 That is after tax household income from all sources including wages/salary, interest, etc.
percentage of disposable income. Figure 3 demonstrates, using aggregated household data, that levels of indebtedness have risen, after a relatively stable period from the 1960s to early 1980s. Further, savings as a percentage of disposable income has also declined from the early 1980s, despite the period of 1950 – to late 1970s of growing savings on average. The declining savings and rising indebtedness by US households occurs within the similar period as the rise in private consumption that occurs in the late 1970s/early 1980s, as shown by figure 1. The change in consumption by US households, taken in aggregate and measured by final demand nominal GDP, is correlated to changes in the savings and debt holdings. Utilizing Epstein’s (2005:3) definition of financialization, the changing savings and debt levels of US households illustrated in figure 3 suggests that there is financial elements to this change. As an aggregate holder of debt, households are financial actors and interact with financial markets and institutions, as the markets provide and the institutions allocate money available to be loaned. Further, US households by interacting with financial institutions that allocate and provide finance, are also interacting, albeit indirectly, with financial institutions that regulate financial markets.

Utilizing the production approach7 to measuring GDP this would provide an initial overview of value-added production by different industries in calculating GDP and provide an understanding for the characterization of where profits are generated in the economy (Landefeld, Seskin, & Fraumeni, 2008, pp. 211-212), paying specific attention to the the finance, insurance, and real estate (FIRE) industry.

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7 The production approach to measure GDP is the summation of output (gross sales less changes inventories) by industry, less intermediate inputs.
Figure 4: Selected industry shares as a % of nominal GDP (value-added approach)

Source: BEA Annual Industry Accounts (AIA)

Figure 4 depicts the largest three industries, whose value-added production individually has been over 10% of production measured GDP from 1950-2007; the three industries being FIRE, government, and the manufacturing industries. These three industries, together, also make up between 46 to 54% of value-added production measured GDP for the time period analyzed. From about the 1980s onward the FIRE industry has increased its overall value-added share of nominal GDP by more than 5%, and has become the largest contributor to production measured GDP from the mid 1980s. Manufacturing over the 60 year period has decreased its share of value-added production, with the decline occurring in the early 1970s. Government, on the other hand, has remained relatively stable, remaining within the 10-15% band of value-added production to GDP over the same period. In same time periods discussed, the share of these three industries value-added GDP, when summed together, has also decreased since the early 1970s to 2007 by 8%. When looking at the decline of the manufacturing industry on GDP, measured by value-added production, the possibility of the changing pattern of accumulation, from production to finance, needs to be considered.
With the changes in two out of the three major industries contributing to value-added GDP growth, there are likely to be impacts on the share of total employment in the FIRE and manufacturing industries. Households have limited avenues in which to generate household income, with employment and the accrual of salary and wages, being the major component (see figure 8). Thus an analysis of employment is necessary to be undertaken in order to examine the impact of financialization on households and their credit consumption. There is also the possibility the composition of aggregate personal income could change, as the demands for labor, capital, finance and land, and the subsequent payments of wages, profit, interest and rent, are different for the FIRE and manufacturing industries. However applying neoclassical marginal productivity theory\(^8\) at a macroeconomic level, given the demand for goods and services provided by the FIRE industry have risen, there should be an increase in the employment in that industry, all things being equal, as the demand for labor is derived from the value of the goods and services it produces (Pasinetti, 1977, pp. 24-32). A similar assumption can be made about the manufacturing industry as well. Thus there should not be a major change in the makeup of aggregate personal income. Figures 5 and 8, illustrate, from 1950-2007, the percentage of total employment of the FIRE, government and manufacturing industries, and the composition of aggregate personal income.

\(^8\) Marginal productivity theory assumes that each factor of production (labor, capital, land) would receive a return (wages, profit and rent) equal to its contribution to the production process, i.e. the value of its marginal product.
Figure 5, when viewed with figure 4, shows that in the case of manufacturing and government industries that there is a correlation between share of value-added GDP growth and percentage composition of the labor market. This is in contrast to the FIRE industry where the proportion of employment has not grown in line with the increasing share that this industry has in the measurement of value-added production GDP, according to marginal productivity theory. With the decline in employment in the manufacturing industry, and no increase in the level of employment in the FIRE industry, it follows, all things being equal, that the share of employment growth has occurred in other industries. This is not to suggest that employment skills are easily transferrable, completely substitutable, and valued similarly between industries, as this is not the case (Doeringer & Piore, 1971; Peck, 1996). Figure 6 illustrates the industries that have a rising proportion of employment from 1950 to 2007, excluding the FIRE industry from this data. The industries that have have had employment growth in proportion to other industries, are the arts, entertainment, recreation, accommodation and food services (AERAF), education, health care and social assistance services (EHSA), professional and business services (PB) and retail trade industries (RT).
Figure 7 draws on similar data to figure 4, illustrating the proportion of value-added GDP of the AERAF, EHSA, PB and RT industries contribute to overall production. Comparing the data in figure 6, with the graph in figure 7, initially there is no correlation between the proportion of total employment and value-added GDP, although there is a weak correlation in the PB industry. Further, in the case of the AERAF, EHSA and RT industries, there is a widening gap between proportion of employment and value-added GDP, where share of the labor market is greater than production. Applying marginal productivity theory to this issue proposes, that all things being equal, that the lower the wage, the more labor that will be demanded by an industry\(^9\) (Pasinetti, 1977, pp. 24-32). Thus it is possible, that the AERAF, EHSA and RT industries have low wages and conditions of employment, and this has contributed to their rising share of employment.

\(^9\) This proposition of marginal productivity theory is not dependent on labour equalling its marginal product.
The changes in the composition of the labor market, and the production measured GDP by industry is likely to have an impact on households’ incomes and impact on households differentially. Peck (1996, 6-13, 119-152) theorises of a core and periphery in labor markets. The periphery is associated with the education and training, welfare, and industries where there is low pay, generally low unionisation rates, and high casualisation and turnover; compared to the core where there are better wages and conditions of employment and lower turnover (Peck, 1996, pp. 6-13, 119-152). The rising proportions of employment in the AERAF, EHSA, and RT industries, using Peck’s (1996, 6-13) classification system, would indicate that there has been a relative growth in the periphery labor market. Thus the changing composition of the labor market is likely to impact on the aggregate composition of personal income.
Figure 8 illustrates that, in aggregate, the composition of personal income is largely made up of payments to employees, through the payments of salary and wages, and supplements. However, the proportion of personal income that comes from payments to employees is falling. There is also an increase in personal current transfers, which includes government benefits and transfers from businesses. Given that there is an increasing level of debt held by households, when aggregated, as per figure 3, and a labor market that is, proportionally, becoming composed of employment on the periphery, there is a need for further examination of disaggregated household data, and how, at least in the aggregate, with falling proportion of income from salary and wages, household debt can rise.

The initial macroeconomic and household analysis undertaken above demonstrates the need for further examination of the trends identified above in figures 1-8, especially when there is the transition to a finance pattern of accumulation from about the 1980s onward; that being the change in and importance of consumption of demand measured GDP and real GDP growth, increasing aggregate household debt and decline in savings, the FIRE industry overtaking manufacturing as the largest industry contributor to value-added production in the last 20 years, the changing structure of the labor market, and the changes in composition in households’ incomes, with the attendant impact on household debt. The occurrences of these economic

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10 Supplements include employer contributions to employee pension and insurance funds, and employer contributions for government social insurance.
trends take place from around the 1980s. From this initial analysis of economic data of the US macro-economy, focusing on different calculations of GDP, analysis of the proportion of industry employment and breakdown of value-added GDP, composition of personal income and the level of savings and debt, in aggregate, of US households there is a change the structuring of the economy that occurs from about the 1980s onward. The change in the US macro-economy and households is identified from approximately the 1980s onwards and could be linked to changes in the way capital accumulation occurs. This possible change in the pattern of accumulation, with the data presented, is correlated to the increased in value-added production as measured by GDP of the FIRE industry. As households are major actors in the US economy, with increasing levels of aggregated household debt, further analysis is required to comprehend the factors that correlate a possible change in the structure of capital accumulation in the US economy, and rising levels of households’ consumption of credit. It is for these reasons that this thesis will focus its analysis on US households and households’ debt.

2.3 Financialization as concept – literature review

The importance of the FIRE industry in production measured GDP, and, aggregated households rising level of indebtedness suggests that financialization provides a useful conceptual approach to further analyze US households and households’ debt.

Financialization as a concept used in academic discourse, has been utilized by different theoretical approaches (Engelen, 2008; Froud & Johal, 2008; Goldstein, 2009). Within a field of inquiry, in this case political economy, theory provides a paradigm that frames the technical, and theoretical approaches to the pursuit of knowledge. In this way theories, and their multiple approaches, are understood as abstractions and simplifications of reality and serves to make reality intelligible, understandable and able to be theorized. Theories, also does not act as a substitute for reality but provides guidance for understanding, and knowledge dissemination and creation. However, theory is developed within geographical, historical, spatial and temporal contexts and may not hold for all times, places and spaces (Schuster, 1995-2005, pp. 116-140). In the case of political economic approaches, consensus and coherence around one theoretical explanation does not hold, though shared concepts, subjects and objects of analysis can be identified (Engelen, 2008; Epstein, 2005; Goldstein, 2009; Schuster, 1995-2005). This disagreement about differing theoretical approaches within political economy is magnified as the general field of study, broadly speaking the social, institutional and economic, are complex and dynamic. However a concept, in this case financialization, is able to provide another tool within
the broad theoretical approaches that exist within political economy that can cohere and provide
a limited consensus of economic, political and/or social phenomena (Engelen, 2008; Epstein,
2005; Goldstein, 2009). Financialization does not purport to be a global totalizing concept,
instead providing for the unevenness of its development, and scope for diverse theoretical
analyses (Froud & Johal, 2008). Thus financialization operates within a plurality of theories that
presents the conflicting and contradictory processes, theories, and actions that illustrate the
heterogeneity of the social, political and economic spheres. In this way the term and concept
known as financialization can further make intelligible political economic theories, and provide a
way to broaden current theories and ways of understanding, and reworking extant theoretical
approaches to have stronger explanatory power and currency (Engelen, 2008).

Within the extant literature, there are two ways in which to understand that conceptual threads
of financialization – based on theoretical approach, or by broad theme. For ease of identifying
the purpose of this thesis, an exploration of the literature will occur by subjects of analysis, and
the broad theoretical paradigms will be identified. The grouping of the financialization corpus
into broad subjects does not suggest that the groupings are rigid and/or there exists one
particular analytical subject. Instead the grouping of the financialization discourse serves to
illustrate where this thesis fits within the broader, and how this thesis adds to the corpus of
knowledge within the discipline of political economy.

In using Epstein’s (2005: 3) broad characterization of financialization, for now, the literature
review will be analyzed through the frame of changes in political, social and economic
relationships between the debt of households in the United States and the financial realm, where
the financial realm includes financial institutions, financial markets, instruments and processes,
and federal government institutions involved in finance. After reviewing the extant literature on
the concept of financialization, a narrower and specific analytical lens to the thesis topic, which is
the credit consumption of US households, will become apparent.

2.3.1 Themes in the extant financialization literature
The extant financialization literature can be grouped by broad themes, which can be condensed
into three topic areas: historical critiques of the rentier and financier, incorporating the concept
of financialization into extant theoretical approaches, and the role of finance/financial markets
in shaping society and economy, and social, political and/or economic institutions.
The historical critiques of the rentier and financier can also be broken down into 2 sub-categories, that of reformist approaches (Berle & Means, 1968 [1933]; Keynes, 1953; Tawney, 1921) and radical/ Marxist approaches (Hilferding, 2006 [1910]; Bukharin, 1927). The historical critiques of the rentier and financier illustrate that evaluations of financialized capitalisms existed before the term “financialization” became incorporated within contemporary study of political economy.

The reformist evaluations accepted the, ownership of private property, profit motive as motivator for entrepreneurial activity, and the necessity of wage labor (Berle & Means, 1968 [1933], pp. 1-10, 18-46, 289-299, 340-352; Keynes, 1953, pp. 23-35, 210-221; Tawney, 1921, pp. 8-32). However, the reformists argued for reforms to the capitalist economy so as regulate stable capital, product and labor markets, and increase social security as a result (Berle & Means, 1968 [1933], pp. 340-344; Keynes, 1953, pp. 135-145, 280-290, 313-331; Tawney, 1921, pp. 33-84). In this way, Berle and Means (1968 [1933], 352-357), Keynes (1953, 372-383), and Tawney (1921, 84-91) sought ways to limit the claims of persons who invested in shares in companies, as this in part was profiting from the passive use of capital/property.

Hilferding (2006 [1910], 301-310) and Bukharin (1927, 15-34), on the other hand, had a negative opinion of the system of capitalism in particular the rise in importance of finance within capitalism and the circuit of accumulation. Utilizing Marxian concepts, that of class relations and the importance of production, they sought to theorize the changing class, and industrial structures and institutions taking place (Bukharin, 1927, pp. 109-127; Hilferding, 2006 [1910], pp. 301-310, 337-350). In this way Hilferding (2006 [1910], 223-226, and Bukharin (1927, 15-34) theorize a structural change in capitalist economic development, that of the eventual transformation of industrial capital and finance capital into cartels which have interdependent relationships with each other, and the rise of a class of households whose source of income is from financial means, respectively. Hilferding (2006 [1910], 337-350) also provides a brief analysis of the affect of this cartelization on labor and capital – conceptually stretching Marx’s original two class structure to allow the existence of multiple intra-class positions with the Marxian binary of labor and capital. The focus of Bukharin’s (1927) and Hilferding’s (2006 [1910]) analysis is focused upon the rise of finance as a phase of capitalism and finance can be accommodated within the capitalist analysis that exists in Marx’s *Capital*. 
In terms of households within the historical critiques, there is an aspect of the analysis that focuses on the class/stratum in society that profit from finance and financial means (Berle & Means, 1968 [1933]; Bukharin, 1927; Hilferding, 2006 [1910]; Keynes, 1953; Tawney, 1921). There is not so much an exploration on the differential impacts of finance on different classes and strata that exist within society. The reformist critiques refer to increasing social security, and the radical critiques refer to labor. The mention of social security and labor can be understood as pointing out the differential impacts of finance on different households, particularly those that rely on salaries and wages, within society. However, these historical critiques of finance in the capitalist economies provide an empirical analysis, from their reformist and radical paradigms, of how finance is operating within the economy and society, and the deleterious impacts of letting finance go unchallenged.

The second grouping of extant literature is the incorporation of financialization within existing theoretical paradigms. In each case, the theories are stretched to incorporate, ‘the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies’ (Epstein, 2005, p. 3). The literature that falls within this category can also be divided into Marxist, and Post-Keynesian approaches.

Within the Marxist approaches, there is a re-conceptualizing of class to take into account how finance re-constitutes and re-defines notions of class as an economic construct, and as form of relation (Martin, Rafferty, & Bryan, Financialization, Risk and Labor, 2008; Bryan, Martin, & Rafferty, 2009), historical analysis of changes to the international financial system as a way to appraise Marx’s theory of money (Vasudevan, 2009), and the eventual stage of capitalism being dominated by the fluidities of financial capital (Mandel, 1983 [1975]). The Post-Keynesian modes of incorporating issues of finance into a Keynesian analysis, do so through an examination of the emergence of financial instability of the post 1950s era resulting from the volatility of investments (Minsky, 2008 [1986]), and the changes in the business cycle, institutions, and macroeconomic analysis that arises from including an assumption that not all financial investment results in macro-economic growth (Hein, 2009; Palley, Financialization: what it is and why it matters, 2007).

The household does not appear within Vasudevan’s (2009) examination of Marx’s theory of money or Mandel’s investigation of the ascendancy of finance in determining the character of capital accumulation. There is a very brief appearance of the household in Minsky’s (2008
work, but is not the main object of analysis the focus – which is on instability in the economy and the role finance plays in economic crises. The adaptation financialization into a re-conceptualization of Marxian class and class relations implies the household in its discussion; however the main role of these texts are to provide an initial framework for understanding Marxian class concepts within financialization. In this way, the objects of these studies is not specifically on households and the impact of financialization has on credit consumption.

The last grouping of literature is the role that finance takes in shaping the economy, and social, political and/or economic institutions (broadly understood). This grouping can also be broken down into four groups: the increasing profit share of non-financial firms through financial channels (Orhangazi, 2008a; Orhangazi, 2008b); analytic approaches to understanding and quantifying financialization within specific contexts (Epstein & Jayadev, 2005; Krippner, 2003; Krippner, 2005; Magdoff & Sweezy, 1987a; Magdoff & Sweezy, 1987b, Onaran, Stockhammer and Grafl 2010, Stockhammer 2008, Stockhammer 2009); financial innovations and their impacts on institutions and markets (Aalbers, 2008; Aglietta, 2008; Crotty, 2008; Crotty, 2005; Dodd, 2005; Langley, 2008); and, understanding financialization as everyday phenomena that affects and effects narratives and performance (Allon, 2009; Erturk, Froud, Johal, Leaver, & Williams, 2007; Langley, 2007; Martin, 2002; Pixley, 2004).

Focusing on these literature that specifically includes analysis on US households, there are analyses that look specifically at different types of household debt and its increase (Aalbers, 2008; Langley, 2008), changes in macro-economic income distribution (Onaran, Stockhammer, & Grafl, 2010), and the subjectivities and evolving agency of the household and individuals in a finance pattern of accumulation (Erturk, Froud, Johal, Leaver, & Williams, 2007; Langley, 2007; Martin, 2002). Within the listed literature, the household is treated as an homogenous entity. Further, the household has not had critical study into its situation within a finance pattern of accumulation, at a disaggregated level.

Given that the thematic analysis of the extant literature illustrates that the household has been generally treated as a singular rather than a heterogeneous plurality, to fill the gaps depicting the different impacts of financialization on US households in relation to debt, is an important part that is missing from this current literature on financialization. This thesis, by identifying this gap
within the discourse, will provide a prolegomena into US households and their consumption of credit that arises from the financialized pattern of accumulation within contemporary US capitalism.

2.3.2 Theoretical Approaches to Financialization

For the most part, the financialization literature surveyed for this thesis can be broadly grouped under four theoretical headings: Marxist, Post-Keynesian, Regulation, and cultural economic approaches. There was also literature that crossed theoretical boundaries and utilized approaches from two or more theoretical backgrounds. This section will first, briefly describe the main four theoretical approaches, and secondly identify what characteristics allow the concept of financialization to be utilized by these four theoretical lenses.

There are four main approaches identified in the extant literature on financialization, that of Marxist, Post-Keynesian, Regulation and cultural economy. Marxist paradigms within finance and financialization, at their core, can be identified as analyzing the changes in capitalist production\(^\text{11}\), with these changes in production reproducing stratified class and social relations that translate into the form/s of social existence and manifest in the economy (Marx, 1934; Marx, 1973 [1939]; Marx & Engels, 1967 [1888]). The analyses also utilize Marxian categories of, the circuit of capital accumulation and its impacts on labor and capital (Marx, 1990a [1976]), stages and varieties of capitalism (Marx, 1991 [1981]; Marx, 1990b [1976]; Marx, 1990c [1976]), and the emergence of world money (Marx, 1904 [1897]).

Post-Keynesian approaches within financialization discourse build on from Keynes’ (1958, 23-34, 280-291) work on the importance of affective demand in the macro-economy, and structurally persistent unemployment, whilst rejecting attempts to construct Keynes’ theory within the mainstream economic logics and frameworks (Dow, 1996, pp. 76-81). In particular, the post-Keynesian approaches focus on production and distribution, and the causes and consequences of structural change and do so through an analysis of historical time, problems with existing knowledge and data, and institutions in the economy (Dow, 1996, pp. 76-81). The current financialization corpus that can be identified as Post-Keynesian also include analyses on economic fluctuations and that they are not necessarily self-correcting (Keynes, 1953, pp. 313-332), role of government in regulating and maintaining aggregate demand (Keynes, 1953, pp. 372-283), and the role of expectations (short and long term) in the economy as it links individual,

\(^{11}\) Which also includes distribution, exchange, and consumption
organizational and systemic behavior to understand the conditions of economic decision-making (Keynes, 1953, pp. 147-164).

Regulation approaches,

‘analyze the interconnections between the institutional forms and regularities of capitalist economies. It aims to study the changing combinations of economic and extra-economic institutions and practices which help secure, if only temporarily and always in specific economic spaces, a certain stability and predictability in accumulation - despite fundamental contradictions and conflicts generated by the very dynamic of capital itself.’ (Jessop, 1997, p. 288)

Thus there is a deliberation on financialization as a pattern and/or structure of capitalist accumulation, and possible contradictions and conflicts that can and might occur within this capitalist accumulation regime.

Lastly, cultural economic paradigms take as an initial proposition that the economy is understood by and formatted through discourse, which impacts on human subjects in the economy (Erturk, Froud, Johal, Leaver, & Williams, 2008, pp. 239-246). Human subjects in the economy both use and are used by discourse/s, and this is done to understand and navigate their subject positions as understood individually or by formal and informal social institutions (Erturk, Froud, Johal, Leaver, & Williams, 2008, pp. 239-246). In the case of financialization, cultural economy approaches analyze how the discourse of risk and new calculative technologies act upon and constitute different subject positions.

From the brief analysis of the major theoretical strands in utilizing the concept of financialization, the theories share the following basic propositions:

i. The capitalist economy is better understood as an historical, temporal, and/or dynamic process;

ii. Economic and political institutions play a role in shaping the economy, but are not the sole institutions that can affect and effect the economy; and,

iii. The economy is socially defined, whether in whole or part.

There is a fourth proposition that applies mostly to Post-Keynesians, and in part Regulation and cultural economic approaches: in a world where uncertainty is unavoidable, expectations (held by formal and informal institutions, and individuals) can have an unavoidable and significant effect and affect on economic outcomes.
Given the newness of the concept and field of financialization, rather than adopt a particular theoretical paradigm under which to present this an analysis of households and their credit consumption in the US, this thesis will instead utilize the four propositions outlined above as the economic framework for analyzing financialization as it applies in particular to the US households and its rising levels of indebtedness. This enables flexibility in the analysis of the US household and its level of indebtedness, without rigidly having to apply theoretical paradigms in totality and allows the utilization of a mix of methodologies and theoretical underpinnings to be used.

2.4 Conclusion
From the analysis undertaken above, this thesis understands that financialization is a pattern of accumulation that currently exists within the United States of America capitalist economy. Households are actors in the economy and form an important role, as institutions, in aggregate, that affect and effect the economy and society. The economic processes of financialization, especially that of risk and its calculation, do not exist absent of broader society, and the resulting calculation by formal and informal institutions, and groups within those formal and informal institutions can affect and effect the economy and society. How households deal with risk/s and its calculation can have unavoidable and significant effect and affect on economic outcomes. The quantitative analysis illustrate that households, in aggregate, are an important part of the US economy, yet households are as a small component of the current analysis on financialization within the field of political economy. Further, there is a gap within the financialization discourse in relation to a broader examination of US households disaggregated, and how the changes in the financial pattern of accumulation have differentially impacted on households’ levels of indebtedness. Thus, this thesis, in drawing on Epstein’s (2005, 3) definition, and Krippner’s (2005, pp. 174-175, 181-182) multi-dimensional characterization of understanding financialization, seeks to fill the gap within the current corpus on financialization by applying the definition and schema to the US household and levels of indebtedness, by disaggregating, where possibly, the data to illustrate the differential impacts on households.
Chapter 3: Trends in Household Credit: comparisons between pre and post 1980

...[T]he use value of the home remains necessarily localized, but the flows of money required to finance [it] have created a complex of web of payments to various individuals and institutions operating at various scales (Wyly, Hammel, & Atia, 2004 (March), p. 1).

3.1 Introduction
This chapter presents selected US Flow of Funds Accounts (FFA) aggregated data on households’ credit consumption, from 1950 to 2007, that links the changes in accumulation regime, that of financialization, and how this interplay of finance has impacted on households and their access to and consumption of credit. The reasoning behind utilizing FFA data is that the FFA ‘measure financial flows across sectors of the economy, tracking funds as they move…’ throughout the economy, and ‘is useful for interpreting current economic data’ especially in elucidating financial trends (Teplin, 2001, p. 431) In identifying the year 1980 as the rupture in which to identify broad trends, this thesis recognizes that this is not a rigid date that suggests changes only happened from this point onwards. Given the dynamism of the US capitalist economy, changes in accumulation regimes have their roots in the previous regime, thus there is likely to some cross over in terms of years. To this end, this chapter will firstly examine the changes in aggregate of households’ consumption of credit and secondly examine aggregate household credit trends, comparing pre and post 1980 data.

3.2 Changes in households’ consumption of credit
In order to situate this chapter within the thesis, this chapter will start by examining the aggregate changes in households’ consumption of credit, specifically paying attention to aggregate credit and liabilities, and the breakdown of this into its two major components, mortgage and consumer credit. Consumer credit can be broken down further into non-revolving and revolving credit. Non-revolving credit are lines of credit provided by financial institutions that have a set credit amount and a specific end date for repayment. Non-revolving credit can be considered loans used to purchase cars and similar major expenditure. Revolving credit broadly defined are ongoing lines of credit provided by financial institutions that do not have a specific end date for when the funds borrowed are required to be paid back. The amount of revolving credit can be specified up to a certain
amount, or unlimited, according to the terms of the revolving credit agreement. Revolving credit data collected by the Federal Reserve (the Fed) is also viewed as a de facto measure of credit card debt (Furletti & Ody, 2006).

It needs to be noted that the data used in this section and subsequent graphs utilizing FFA data, that in examining the FFA data as it pertains to households, non-profit institutions serving households (NPISH) are also included in that data. However in order to ensure that, in this case, aggregated households remain the site of analysis, in the breakdown of the data, data that is specifically and largely NPISH will not be incorporated in this analysis.

**Figure 9: Total Liabilities for households 1950-2007, inflation adjusted, measured in millions of $US**

![Graph showing total liabilities for households 1950-2007, inflation adjusted, measured in millions of $US.](source: The Fed FFA Table Z1 & L100, BLS CPI)

Figure 9 shows the total liabilities for households over the period 1950-2007, adjusted for inflation. As can be seen, the period from 1950 to 1979 shows an increase in the inflation adjusted money volume liabilities for households, and the same can be seen for the period 1980 to 2007. However the difference between these two periods of the inflation adjusted money volume of liabilities held by households is the rapid increase in the latter period. In order to understand the factors behind this rapid increase in aggregate of households’ consumption of credit from around the 1980s onward, this section now turns to the breakdown of households’ credit in terms of mortgage and consumer credit.
Figure 10 depicts the aggregate and inflation adjusted mortgage liabilities for US households. In contrasting figures 9 and 10, the rapid rise in inflation adjusted money volume liabilities for households is, in part, due to increasing aggregate mortgage liabilities. Figures 9 and 10 exhibit a similar shape in their respective graphs – steady increases in liabilities in the period 1950 to 1979, with a rapid increase in liabilities from 1980 to 2007.

The other major component of households’ debt is consumer credit, consisting of non-revolving and revolving credit. Figures 11 and 12 depict both aggregate inflation adjusted household consumer credit, with figure 12 breaking down aggregate consumer credit into its two major components of non-revolving and revolving liabilities. When comparing figures 11 and 12 the data illustrates that households’ liabilities, across the two major credit types escalates from around the mid 1980s onwards. However aggregated non-revolving credit has a more volatile growth rate, but on the whole non-revolving consumer credit has increased in the period from 1980 onwards. Revolving credit on the other hand has had a rapid increase from the 1980s
onwards, having moderate growth since first being reported in the FFA from 1968.

**Figure 11: Aggregate Household consumer credit liabilities in $US, inflation adjusted (100=82-84)**

![Graph showing aggregate household consumer credit liabilities in $US, inflation adjusted (100=82-84).](image)

Source: The Fed Z1 & G19, BLS CPI

**Figure 12: Aggregate Household non-revolving and revolving credit liabilities in $US, inflation adjusted (100=82-84)**

![Graph showing aggregate household non-revolving and revolving credit liabilities in $US, inflation adjusted (100=82-84).](image)

Source: The Fed Z1 & G19, BLS CPI

Comparing figures 9, 10 and 12 illustrates that the rise in household credit from around the
1980s onwards is largely due to rapid growth of mortgage and credit card liabilities. Given that mortgages and consumer credit are used for different purposes, for households increasing their liabilities across these two types of credit at a similar time suggests that there are changes and innovations in financial markets, in particular in the offering of credit, adopted by financial institutions. The next section, in analyzing aggregate household credit trends will examine this issue further.

3.3 Aggregate Household Credit Trends

3.3.1 Introduction
In examining the US Flow of Funds Accounts (FFA) from 1950 to 2007, three main trends arise out of the analysis of aggregate households’ credit. The three main trends examined in this chapter are: the rise of revolving credit, the rise of securitized credit regardless of type of household credit, and increasing total household mortgages.

It needs to be mentioned, that in examining the FFA data as it pertains to households, NPISH are also included in that data. However in order to ensure that, in this case, aggregated households remain the site of analysis, in the breakdown of the data, data that is specifically and largely NPISH will not be incorporated in the analysis.

3.3.2 Rise of revolving credit
In terms of the Federal Flow of Funds Accounts (FFA), the first year revolving credit was reported occurred in 1968. The aggregate household liabilities in 1968 are largely made up of mortgages and non-revolving consumer credit, approximately 87% of total liabilities. Revolving consumer credit makes up less than 0.5% of household credit in the same year.

Figure 13: Institutions offering revolving credit and the year first recorded as offering revolving credit

<table>
<thead>
<tr>
<th>Institution</th>
<th>Year revolving credit listed on Z1 table</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>1968</td>
</tr>
<tr>
<td>Finance companies</td>
<td>1984</td>
</tr>
<tr>
<td>Nonfinancial businesses</td>
<td>1970</td>
</tr>
<tr>
<td>Credit unions</td>
<td>1984</td>
</tr>
<tr>
<td>Savings institutions</td>
<td>1981</td>
</tr>
<tr>
<td>Securitized consumer revolving credit</td>
<td>1989</td>
</tr>
</tbody>
</table>

Source: The Fed Table Z1, L100

Figure 13 does not suggest that revolving credit, broadly defined, was not in existence prior to
1968. The types of lines of credit that could be considered revolving that existed prior to 1968 took the form retail credit, usually paid in installments to department stores (Calder, 1999, p. 281). The difference is in which institutions are offering the credit – in this case, there is the rise of financial institutions offering revolving lines of credit that are not specifically used to purchase a good and/or service. Further, non-financial businesses also extend this type of revolving credit in 1970, moving away from installment plans initially offered prior.

Figure 14: Proportion of household revolving credit in relation to total household liabilities 1968-2007 (quarterly figures)

The introduction of revolving credit by commercial banks in 1968, and the expansion of revolving lines offered by financial institutions and non-financial corporations\textsuperscript{12} are the catalyst for this rise in revolving credit.

In 1968, for every dollar of revolving credit there is $75 of non-revolving credit. By 2007, revolving consumer credit is 37% of the total non-mortgage credit lent to households. Further, for every dollar of revolving credit, there is $1.7 dollars in non-revolving credit. Clearly, in particular looking at figure 14, the use of revolving credit to fund everyday household expenditure has increased.

The use of revolving credit is not an unknown phenomena in the US, with department stores being the initial sites through which households have access to revolving credit (Calder 1999, p. 281).

\textsuperscript{12} The type of revolving credit offered in 1970 by non financial corporations becomes similar to that of a credit card, rather than instalment payments for the purchase of goods or services.
The change in revolving credit from being a small component of aggregate household debt to one where it makes up over one third of total consumer credit is large. Especially given that the interest rates on revolving lines of credit are greater than the Fed’s banks effective rate, and that for mortgages or non-revolving consumer credit. Figure 15 depicts the interest rates for the Fed’s banks funds effective rate (reported monthly) and credit cards (reported quarterly). As can be seen, with the exception of a small period from the late 1970s to early 1980s, credit card interest rates range from 1.5 to 3.5 times the Fed’s funds effective rate, with this divergence more pronounced from the late 1980s onwards.

**Figure 15: Federal funds effective interest rate (reported monthly) and credit card interest rates (reported quarterly), 1972-2007**

![Figure 15: Federal funds effective interest rate (reported monthly) and credit card interest rates (reported quarterly), 1972-2007](source: The Fed H15 & G19)

### 3.3.3 Rise of securitization

Securitization is the ‘practise of parceling and selling loans and other debt claims to other financial institutions, who then hold those purchased claims and then issue liabilities backed by such claims’ (Shin, 2010, p. 99). Securitization exists for households’ consumer and mortgage credit, with this financial innovation first occurring in relation to household credit in 1965 for mortgages, and in 1989 for both non-revolving and revolving credit. The securitized system of financial intermediation creates increasingly complex financial relationships that become more dependent on the conditions of capital markets (Shin, 2010, p. 102). In this way, US households become linked to and can be affected by the conditions of the capital markets through the
Looking specifically at mortgages, the securitization of mortgages, initially, was minor and was developed as a way to increase the availability of funds for mortgage lending to financial institutions, and to make mortgages affordable to households, in particular to minority groups and low socio-economic households (Fannie Mae, -; Freddie Mac, -). This innovation in mortgage lending, starting in 1965, was initially conducted within the realm of the Federal Government owned corporate agency, Ginnie Mae, with its focus on increasing international capital flows into the US housing market (Ginnie Mae, -), and the Government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, focusing on domestic secondary mortgage markets (Fannie Mae, -; Freddie Mac, -). Fannie Mae and Freddie Mac act as a mortgage pool, in that they buy mortgages that meet specific criteria from lenders, hold the mortgage assets and issue liabilities, mortgage backed securities (MBS), against those assets (Fannie Mae, -; Freddiemac, -, Shin, 2010, p. 102). Ginnie Mae, with its focus on international capital, secured the mortgage pool bought by international investors, ensuring that payments were made regardless of whether the underlying mortgage/s had defaulted (Ginnie Mae, -). A discussion of Ginnie Mae and GSEs are taken up in chapter 4, under the section ‘Government Policy’. In 1965 Agency and GSE mortgage pools comprised less than 0.1% of total household mortgage assets. Private sector issuing of asset backed securities (ABS)\(^{13}\), was first reported as occurring in 1984. ABS mortgage issues comprised less than 1% of total mortgage assets in 1984. By the mid to late 1990s, ABS and Agency and GSEs backed mortgage pools make up over half of the total household mortgage assets, with Agency and GSE backed mortgage pools comprising more than half of the total securitized household mortgage assets. It would seem that there is a correlation between securitization and an increase the amount of loanable funds available for mortgages.

\(^{13}\) In this context, ABS are pooled and tranch ed MBS that are converted into another layer of claims such as collateralized debt obligations (Shin 2010, 102).
Figure 16: US household total mortgage assets & its composition of Agency/GSEs and ABS, millions of $US, inflation adjusted (100=82-84)

![Graph showing US household total mortgage assets & its composition of Agency/GSEs and ABS, millions of $US, inflation adjusted (100=82-84)](image)

Source: The Fed, Table Z1, G19, G18; BLS CPI

In relation to households’ consumer credit, the use of securitization for both non-revolving and revolving credit starts in 1989 according to the FFA. With revolving credit data accounted for in the FFA from 1968 onwards, the dates used to analyze non-revolving and revolving credit start from this year. Figure 17 depicts the total consumer credit, inflation adjusted, and starting at 1989, the amount of that total consumer credit that is securitized. The amount of securitization, as a proportion of total consumer credit is not as large as that for mortgages. The securitization of consumer credit increases rapidly, then stabilizes in the early 2000s. Similar to that of household mortgages, securitization seems to be correlated with an increase in loanable funds available.
Figure 17: Total in aggregate, total non-revolving, total revolving, and securitized, Household Consumer Credit 1968-2007, $US millions, inflation adjusted (100=82-84)

Source: The Fed FFA Table Z1, G19; BLS CPI

Figure 18 depicts the non-revolving and revolving securitized components of total securitized consumer credit. Whilst initially non-revolving consumer credit was slightly greater than revolving consumer credit, during the period 1989 to 2007 there is overall a growing divergence between the two, with revolving consumer credit approximately more than double non-revolving consumer credit.
As noted earlier in section 3.2.1, the interest rate on credit cards is quite high compared to the Fed’s banks effective interest rate, with the credit card interest rate dropping around the late 1980s. Figure 19 illustrates that there is a correlation between securitization of revolving credit and credit card interest rates, in particular that with increasing securitization of revolving credit, credit card interest rates have decreased.
3.3.4 Increasing total household mortgage debt
This rapid rise in inflation adjusted money volume liabilities for households is, in part, due to the increase, in aggregate, of household mortgages. As depicted in figure 16, household's mortgage debt has generally increased in the period 1950 to 2007, with three distinct periods of growth. From 1950 to early late 1970s there was steady rising growth in households’ mortgage debt. The period from the early 1980s to mid 1990s had increased growth, that was more rapid that the preceding period. The greatest growth in household mortgage debt was experienced from the mid 1990s onwards to 2007, where the growth was greater than both preceding periods. In order to examine the reasons behind rising aggregate mortgage debt, this section will analyze average house prices, home ownership rates, and the emergence of home equity lines of credit.

Figure 20 depicts average US house prices from 1970 to 2007, inflation adjusted. The earliest house price data publicly available started from 1970 to the present. Figure 20 illustrates that the average price of housing, whilst also fluctuating, had a steep increase in average price, inflation adjusted from the mid 1990’s onwards. Comparing figure 20 to figure 16, which depicts aggregated inflation adjusted households’ mortgage liabilities, a relationship between total households’ mortgage debt and average house prices, can be discerned. Utilizing the three distinct periods of increasing mortgage debt described above, in the earliest period, 1950 to late 1970s, house prices appear relatively stable with some fluctuation. In the second period, early 1980s to mid 1990s, where mortgage debt grew faster than the preceding period, average house prices exhibit similar fluctuations in average price to the previous period, however the amplitude of the fluctuations increase. The rapid increase in mortgage debt that occurs from the early 1980s, can partially be seen in figure 20, as average house prices increased. From the mid 1990s onwards, average house prices increase markedly, correlated to the rapid and steep growth in total household mortgage debt. Rather than housing prices being the sole correlate in relation to increasing mortgage debt, this analysis suggests that there are other issues at play for the rising mortgage liabilities than the price of houses. However it does seem likely that the increase in aggregate of mortgage debt from the early to mid 1980s and the mid 1990s onwards is in part related to the increase in the price of housing.
In examining home ownership rates of US households, figure 21 shows the level of home ownership. Home ownership in the US increases from 1965 to around the late 1970s, and has rapid growth from the mid 1990s onwards. There is a period of stable growth from the mid 1980s to early 1990’s; with two periods of decline from early 1980s to mid 1980s, and mid 2000s. The rapid growth period from the mid 1990s, depicted in figure 21, correlates with increase in average house prices (inflation adjusted) from around the mid 1990s. This suggests that the growth in mortgage credit in the period of the mid 1990s onwards is in part due to the high demand for housing, which had the effect of pushing up average house prices.
The last aspect of increasing total household mortgage debt is the rise of home equity loans (HEL). HEL is a sub-category of household mortgage credit where a loan is taken out against the equity of a home (Cagnin, 2009, p. 155). The equity in the home is used as collateral to create a lien against the actual house, and reduces the actual home equity of the existing mortgage (Cagnin, 2009, p. 155). In the analysis above, HEL was incorporated in the total mortgage data. HEL are first reported in the FFA in 1970, and offered solely by finance companies. Initially HEL comprised less than 1% of total mortgage debt, as per figure 22. In 1990 there is a rapid increase in the composition of HEL as a proportion of total mortgage debt, moving from just under 1% in the previous year to close to 9% of total mortgage debt in 1990. The main reason for the increase in the proportion of HEL is the increase in the number of financial institutions offering this sub-category of mortgage debt, and the securitization of HEL debt. In this way the offering of HEL by financial institutions in 1990 contributes to the rapid increase in total mortgage debt from the mid 1990s onwards.
3.4 Conclusion

There is a difference in the household consumption of credit pre and post 1980, in particular the post 1980s environment is one where the consumption of debt by households increased markedly. The three main reasons for this increased consumption of credit are the rising use of revolving debt/credit cards, the increasing availability of credit for financial institutions to loan to households through the securitization of all types of credit, and expanding mortgage debt. The trends described in this chapter depict, in part, the changes that occurred prior to 1980 that lead to understanding the post 1980s US as a financialized accumulation regime, in illustrating the changes in the type of credit consumed by household, and the change in the types of financial instruments used in that consumption of credit.

The trends discussed suggest that the geography of money availability, credit and financial instruments and investment has changed, in particular through the process of securitization. The Federal Government implicitly promoted the securitization of household credit, through its initial and continued support in chartering Ginnie Mae and GSEs specifically to transact securitized mortgage products. Securitization, from the analysis undertaken above, seems to be correlated with increases in the amount of loanable funds available, regardless of the types of credit. However this financial process links US households, and in particular households with mortgages and revolving lines of credit, closer to domestic and international capital flows, given that the instruments used in securitization are traded in the financial capital markets.
Chapter 4: US households from 1950 to 2007: comparisons between pre and post 1980

The history of the financing of American dreams unfolded as part and parcel of a larger development in American history, a transformation of American culture that consumer credit had no small role in assisting (Calder, 1999, p. 6).

4.1 Introduction
This chapter starts from the four propositions discussed in chapter 1, those being: the economy as socially defined whether in whole or part; the capitalist economy is better understood as an historical, temporal, and/or dynamic process; the role of political and economic institutions in impacting on the economy, in particular the household; and, expectations can have an unavoidable and significant effect and affect on economic outcomes. Thus the first aspect of analyzing US households and their consumption of credit is to understand the broader social and economic changes that have occurred over the time period 1950-2007, with a focus on the differences before and after 1980, recognizing that this is not a rigid date that suggests changes only happened from this point onwards. This examination will provide an overview of what has affected US households, and households’ responses to these changes. In particular this chapter will explore the changes within US households that occur from the 1980 onwards; the approximate time that was identified as showing a finance pattern of accumulation within the US economy.

In this chapter, sections 4.1 and 4.2, uses data that breaks down household data by quintiles, as determined by before tax income, to illustrate the differential impacts of a finance pattern of accumulation, and households’ differential responses to that change. The determination to break down data into household quintiles stems from the data sets of the US Federal Government permitting disaggregation to the quintile level for before tax income, for the most part. Net household worth will also be used, where it was difficult to breakdown datasets into income before tax quintiles. Further, the disaggregating household data into quintiles, as will mostly be used by this thesis, also accords with the class analyses undertaken by Beeghley (2004), Gilbert (2002), and Thompson and Hickey (2005). The class structure is broadly depicted within five bands: lower classes/working poor, working classes, lower middle classes/middle classes, upper middle classes/ the rich, and the capitalist class/upper class/super rich (Beeghley, 2004; Gilbert, 2002; Thompson & Hickey, 2005). This thesis recognizes that the class structure described will
not enable an analysis of US households that could be described as the underclass. For the purposes of this thesis, it is a reasonable assumption to make that the capacity of the underclass to borrow money from formal financial institutions is negligible as there is, limited or no participation in the labor market, and as a class it is broadly reliant on government transfers where households meet the criteria. The five class structure described enables a nuanced analysis without resorting to broadly categorizing households as an homogenous whole.

The framework used for understanding the social and economic changes in US households arise from the brief economic analysis that took place in Chapter 2, and are: wages and salary, and the changing structure of the labor market; households’ incomes; and, government policy.

4.2 Wages and salary, and the changing structure of the US labor market

Returning to figure 8, this diagram illustrates that the majority of income received by US households, in aggregate, is in the form of salary and wages from employment, and that this form of household income is decreasing in proportion to other forms of income, especially from 1980 onwards. However, figure 8 does not represent the number of households which predominantly rely on being employed by others, and the resultant drawing of a wage/salary that is the biggest component of household income.

Figure 23 depicts the broad occupation of the main reference person, from the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey (CES), undertaking the survey on behalf of the household; the occupations are broken into, self-employed, employed by other/s, retired, and not reporting/unemployed/other. This data is given as a percentage of households so as to be able to provide comparison over time. The data provided by the BLS starts in 1984; hence 1984 is the earliest reference point that information can be found, and is within the timeframe that this chapter’s analysis takes place. Further the importance of salary and wages for the majority of households and the resultant income pre-1980 already exists (Brenner, 2003, p. 10; Reich, 2008, pp. 75-86). When analyzed in conjunction with figure 8, these two datasets illustrate the importance of waged/salaried employment within the aggregated US household, and that the majority of households rely on wages and salary from paid employment. Thus changes in the structure of the US labor market are likely to impact upon most households. It is the issues of the importance of wages/salary, and the industrial compositional change in employment that this section will take up.
Breaking down the sources of income by household quintile would give an illustration of how different households depend on salary and wages, especially from those that are employed by others, as a source of income thus are reliant on the conditions of the labor market.

The disaggregating of household data to see the differential in reliance on wage/salary income was difficult, and there is a limited range of years to determine the effect. The Fed has a triennium data series that surveys households about finance, the Survey of Consumer Finance (SCF). However access to the full range of data from the Fed SCF is difficult, as not all years are available electronically, located in several databanks, has different levels of access, and the ability to breakdown data difficult as not all datasets interconnect to provide the precise data this thesis was seeking. The SCF datasets that were easiest to obtain and manipulate are the ones from 1989 onwards.

In order to provide some disaggregation, figure 24 depicts the breakdown between percentile households’ net worth\(^1\) and their before tax income that was constituted as wages/salary. There

\(^1\) Net worth is measured by total assets minus total liabilities – this measurement can include households that have negative net worth.
is a strong correlation between households’ net worth and household quintile based on income before tax.

**Figure 24: Wages as a % of before tax income by households’ percentile of net worth**

Figure 24 demonstrates that the bulk of households rely on salary and waged income, ie that arises from work performed as an employee, to provide a living. The bottom three percentiles of household net worth are grouped around 73-87% as to the proportion of wages that their respective household income before tax is derived. Further these three bottom percentiles are becoming convergent, demonstrating the increasing importance of salary and wages from being employed by others for the three bottom net worth households. The fourth percentile of household net worth as a percentage of before tax income is between a bands of 63-72%, with the percentage wage/salary broadly stable over the period, hovering around 72%. Lastly the top percentile has, on trend, less than a 50% proportion of wage/salary income of total before tax household income. Therefore the household differentials of before tax household income illustrate the different reliance that different households have on securing employment through the labor market; with the 80% of households reliant on wages/salary for more than 50% of their household income.
As established above, the majority of American households rely on wages from employment as the major source of income.

The unemployment rate measures the number of unemployed persons as a percent of the total labor force. A person is considered unemployed if they are aged 16 years and older who have not been employed during the reference week when the data is being compiled, were available work, and made specific efforts to find employment in the three weeks prior to the reference week. It should also be noted that the measure unemployment rate used in this section has its own limitation, as it does not report on underemployment, and individuals who are no longer looking for employment despite being unemployed.

**Figure 25: % Unemployment in the US 1950-2007**

![Bar chart showing the annual unemployment rate in the US from 1950 to 2007.](image)

Source: BLS ‘Unemployment Rate’

Figure 25 shows the BLS reported annual unemployment rate for the US from 1950-2007. Looking at figure 11, unemployment was lowest in 1953 at 2.9%, and highest in 1982 at 9.7%. The annualized rate of unemployment was generally lower, and more stable, in the period preceding 1975. Higher rates of unemployment are experienced from 1975 onwards, with the lowest percentage of unemployed in the period 1975-2009, reported in 2000 at 4%. The rate of
unemployment has identifiable peaks and troughs, following an inverse pattern to real GDP growth as depicted in figure 2; that is when real GDP growth increases, the annualized unemployment rate decreases. There is more volatility and longer periods of above 6% in the unemployment rate from 1975 onwards. Comparing pre and post 1975 unemployment patterns, there are three issues that flow from the graphical illustration and analysis, (1) percentage of unemployment post-1975 has not matched the lows experienced in the preceding time period of 1950 to 1975, (2) the unemployment rate from 1975-2009 has been higher, and for longer periods of time, than the 1950-1975 period, and (3) the unemployment rate is more volatile, and higher in the later thirty-two years than the preceding twenty-five years. Thus unemployment, given its more volatile and extended periods of high rates, has become an issue for households, especially those in the bottom percentiles of net worth, post 1975.

As previously discussed, figure 6 illustrates the changing industry employment structure of the US economy. Broad changes in relation to the labor market included the increasing share of employment based in the AERAC, EHSA, PB and RT industries. In order to understand how the changes in industrial make-up of the labor force affect US households, this thesis will look at annual average weekly wage rates. The data available to compare annual average weekly wage rates from the BLS starts in 1965, and is broken down into super-sectors, comprising: construction, education and health services, financial activities, information, leisure and hospitality, manufacturing, natural resources and mining, other services, professional and business services, and trade, transportation and utilities. The super-sectors that contain the industries that have an increasing share of employment in the US economy and pictured in figure 6 are: education and health services, leisure and hospitality, professional and business services, and trade, transportation and utilities. Whilst the data being used is not homologous as figure 6 is based on industry groupings and figure 26 based on sectoral groupings, the wages data from the BLS will provide a broad snapshot of wages trends in those industries that have been increasing their proportion of employment in the US economy.
Figure 26: Selected super-sectors’ average weekly earnings for production and nonsupervisory employees on private nonfarm payrolls, in constant 1982-1984 dollars, 1965-2007

Source: BLS, table B2; BLS CPI (1982-1984 = 100)

Figure 26 illustrates a number of important salary and wage issues that the changing structure of the labor market will have on the households that rely on wages/salary as its primary source of household income. With the exception of financial activities, professional and business services and education and health services, the remaining super-sectors’ average weekly wage has been largely stagnant or decreasing post 1980. In the case of the professional and business services sector, the average weekly wage has not returned to its previous high level in 1965; and it has been in the last decade that there have been wage increases in this super-sector. Education and health services super-sector have also experienced increased average weekly wages, with the wages slowly rising from around 1980 onwards; average weekly wages are higher than the two super-sectors with the lowest average weekly wages, leisure and hospitality, and trade, transportation and utilities. The financial activities super-sector has had the greatest wage growth, with 2007 as the year for the highest average weekly earnings.

Extrapolating the information contained in figures 6 and 26, clearly the changes in the industrial composition of the US labor market coupled and the attendant average wages depicted, US households that primarily rely on wages/salary as the main source of household income have affected these households. Coupled with the unemployment data in figure 25, it is also possible that the average weekly figures discussed above may not translate into similar household income,
as with an increasing volatility of the unemployment rate households could experience periods of no salary and wages. The possibility of the bottom four percentiles of households, as measured by net worth above, losing their major source of income and/or having highly variable income is a very real issue as this directly impacts on the ability of households to maintain its standard of living, and declining income from wages and salary could, as seen in figure 8 albeit in aggregate, could provide a reason for increasing household debt from the early 1980s onward (Bivens & Weller, 2010; Warren, The New Economics of the Middle Class: why making ends meet has gotten harder, 2007).

These changes in the labor market are in part also explained by political factors; in particular the restructuring of the US economy that took place post 1975, when there was an outbreak of high inflation and high unemployment. This issue of restructuring, and in particular the US Government and Federal Agencies response, will be addressed under Chapter 4’s sub-heading of ‘Government Policy’.

From this economic restructuring that took place from around 1975 onwards, households that largely rely on salaries and wages from being employed by others ie those largely in the bottom four income and wealth bands, felt the effects of the changes to labor market. These households also make up approximately 60 - 80% of total households. The changes broadly understood as labor market flexibility includes, less secure forms of employment, the repudiation of wages growing with productivity leading to decreasing wages and declining employment conditions, and destabilizing and decreasing the role of labor representation in the economy (Bellamy Foster & Magdoff, 2008; Palley, 2009, pp. 53-61). Further, from the 1980s onwards there is an increase in households, across all classes, with dual earners and/or earners holding two or more jobs (Warren, 2004, p. 405; Warren, 2007).

This restructuring of the labor market from 1975 onwards reflects the change in economic ideology towards neo-liberalism, in particular the “substitution of borrowing and asset price inflation” and inflation targeting, in place of full employment (Palley, 2009, pp. 53-57).

4.3 Households’ incomes
In order to understand how these changes in the labor market have affected household income, the thesis will now analyze changes in household income, at the quintile level, in particular looking at the changes in household income real growth over different decades. It should be
noted here that the earliest data that could be sourced starts from 1967/8. As has been seen above, the changes in the labor market have had effects on households, given most households rely on salary and wages as their primary form of household income.

Figure 27: Mean household income, by quintile 1967-2007, CPI adjusted (100 = 82-84)

Source: US Census Bureau Table H3, BLS CPI
Figure 27 depicts the CPI adjusted mean household income received by quintile for the period 1967 to 2007; 1967 was the earliest year data was available broken down by quintile. The data illustrates that for most households, income has stagnated or declined. As can be seen by figure 28, in terms of real growth of household income, there has been real household income decline especially in the bottom 60% of households. Until the 1980s household income growth had been broadly even across all households regardless of income quintile. It is from the 1980s onward that household income growth for the top 20% of households is approximately double that of the bottom 60% of households.
The bottom 60% of households have experienced real household income growth of less than 1% in decades from 1980 onwards, with the rate of inflation three to five times greater than these households’ income growth rate. The average rate of inflation for the time period concerned is depicted in figure 29. Household incomes for the bottom 60% of households have not kept up with the rate of inflation, and suggest there is declining capacity to keep up with the costs of living. This is also the case with the top 40% of households, but not to the same extent. In the case of the top 20% of households the difference between the real household income growth rate and the rate of inflation, the difference is less and the difference ranges from approximately 0.66 to 2.5 times the growth of rate of the top income quintile households. This analysis highlights the differential impact that relying on wages/salary as the primary source of household income can have on changes to household income, especially where the labor market restructures to increase the employment in periphery and/or low paying industries.

The discussion of the composition of household income, illustrates that the top households, as measured by net worth has a greater diversity of income sources, and has maintained growth in household income, compared to most households as determined by net worth, and are not as reliant on the labor market for the provisioning of household income. Figure 30 shows the components that make up the rest of the top households’ income.
As can be seen in figure 30, the next major component of the top quintile households’ income derives from interest, dividends and capital gains, making up approximately 20%, average, of these households’ income. With no other household type, as determined by net worth, following a similar pattern of household income sources, especially from interest, dividends and capital gains, this household stands apart and supports one of the categories utilized by Krippner’s (2005, pp. 174-174, 181-182) for understanding financialization, in particular that of the rise of a rentier class (Hilferding, 2006 [1910]).

Linking the analysis from chapter 3 on aggregated households’ consumption of credit, with the previous sections exploration of the changes in the labor market and its impacts on salary and wages and households’ incomes, the increase in households’ liabilities occurs in a similar timeframe to when wages and salary incomes, on which the majority of households are reliant on that as a chief component of households’ incomes, are stagnating or declining. This suggests that within households, especially where salary and wages are the main source of household income, that increasing aggregate household debt correlates with being used as a way to make up for declining real wages.
4.4 Government policy

This thesis understands that a change in the pattern of accumulation has occurred within US capitalism from around the 1980s onward, and formal social structures, in particular government departments, programs and actions, perform a role in providing stability, particularly social stability. In this way, a discussion about financialization, US households and their consumption of credit, would not be complete without a discussion on how the Federal Government is providing the necessary stability to support US households within the financialized pattern of accumulation that has taken place since 1980s onwards.

As mentioned earlier the economic problems existing in the late 1970s, that of rising inflation, and increasing unemployment, resulted in changes to the social contract between capital and labor, that had previously existed in the post World War II period. In particular, aspects of the economic ideology of neo-liberalism were adopted by the US Federal Government (Panitch & Gindin, 2009; Warren, The New Economics of the Middle Class: why making ends meet has gotten harder, 2007). Neo-liberalism as it pertains to this thesis can be broadly identified as the rise of central banking and monetary policy in particular the primacy of price stability (Panitch & Gindin, 2009, pp. 30-37), and the “substitution of borrowing and asset price inflation”, in place of policies for full employment and social welfare that constituted the labor-capital social contract (Palley, 2009, pp. 53-57). This is not to say that there was a clear rupture from one economic ideology by the US Government pre and post 1980. Instead this thesis recognizes that capitalist economies are dynamic and that changes in economic policy are rooted in the historical, temporal and spatial arrangements existing at that moment. This section will not cover the full range of policies enacted by the US Federal Government and its arms, instead engaging with two particular aspects of US Government economic policy that crossover with the previous examination on US households. The changes in economic policy instituted by the Federal Government and its arms, in the late 1970s/early 1980s can be broadly recognized as – the adoption of price stability as the primary mechanism to achieve economic stability, and changes in government economic policy to reduce public sector spending.

The period of high inflation and growing unemployment in the late 1970s to the 1980s resulted in a change of Government policy; which led to the eventual dominance of monetary policy, specifically the goal of price stability as the best way to achieve economic sustainability and stability (Bernanke, 2006; Eatwell & Taylor, 2001, pp. 114-116; McDonough, 1996; Panitch & Gindin, 2009). The Fed, as the central bank in the US and largely the site in which monetary
policy is enacted, is legally required to pursue three objectives to make policy decisions that: maximize participation in the labor market, provide for price stability, and moderate long-term interest rates (Bernanke, 2006; McDonough, 1996); with price stability recognized as the primary plank to the enactment of the other two objectives of the Fed (Bernanke, 2006; McDonough, 1996). The argument for focusing on price stability is that:

‘price stability both contributes importantly to the economy’s growth and employment prospects in the longer term and moderates variability of output and employment in the short to medium term… promotes efficiency and long-term growth by providing a monetary and financial environment in which economic decisions can be make and markets operate without concern about unpredictable fluctuations in the purchasing power of money’ (Bernanke, 2006).

Under this regime of economic policy: capital continues to appreciate, and money (in assets and liabilities) do not lose value. In this way, focusing on price stability, according to this approach of economic policy, would ensure, by virtue of creating a non-inflationary economic environment, that monetary policies designed for full employment and ensuring a stable interest rate would result directly out of policies for price stability.

As can be seen from previous analyses, the economic environment as it pertains to households, especially those reliant on salary and wages for the majority of income, that from around 1980 onwards unemployment is more volatile and higher than the pre 1980s period. Further, those households that are reliant on salary and wages for income have stagnated and/or decreased. The majority of households are reliant on incomes largely provided by salary and wages and have seen their purchasing power diminish, as household income has not kept up with inflation (see figures 28 and 29). In relation to employment prospects, as per figure 25, unemployment has become more volatile since 1980, and has not returned to a low unemployment environment experienced in the post World War II boom. In this way, the approach taken by the US Government in adopting monetary policy and giving primacy to price stability over full employment, have affected negatively a majority of households, in particular those households reliant on employment and the salary and wages. Lastly given, in aggregate, US households have increased their consumption of credit, most households are reliant on salary and wages for households’ income, it stands to reason that ‘[s]ocieties whose members live on credit need growth and, most important of all, prospects of [secure] employment’ (Gelpi & Julien-Labruyere, 2000, p. 112)
As part of the Government’s change in economic ideology there was a focus on reducing the size of the state, and in particular direct welfare service provision by Government (Bellofiore & Halevi, 2009, p. 16; Guttmann & Plihon, 2010, pp. 270-271; Stockhammer, 2008, pp. 194-195). Whilst expenditures on the public service and the state have not decreased from the 1980s onwards, at the same time there has been a change in economic ideology from one of ‘limited, but substantial state intervention to one of radical laissez faire’ (Bellofiore & Halevi, 2009, p. 16; Guttmann & Plihon, 2010, pp. 270-271; Stockhammer, 2008, pp. 194-196; Stockhammer, 2009, p. 6). In this way, there has been a reduction of government provision of the social safety net without a necessary reduction in total Government spending (Bellofiore & Halevi, 2009, p. 16; Guttmann & Plihon, 2010, pp. 270-271; Stockhammer, 2008, pp. 194-196; Stockhammer, 2009, p. 6). This is despite the post 1980s environment being one where unemployment was more volatile and household income for most US households was stagnating or in decline.

In particular as part of the Federal Government’s shift away from direct funding and provision of social welfare programs for households, home ownership was cemented as the primary plank of bipartisan welfare policy (Hackworth & Wyly, 2003). Housing was viewed as providing a store of wealth that could provide social and economic security for households (Allon, 2009, p. 372). With the advent of Federal Government sponsored enterprises (GSEs) given charters to expand the mortgage secondary market15 in order to increase the supply of money available for mortgage lending, the Government could support increasing home ownership, a social program, without having to inject major expenditure to achieve this policy (Hackworth & Wyly, 2003). It is from this bipartisan support and the cementing of home ownership as welfare, a form of ‘asset based welfare’ and financialized welfare, that secondary markets and securities were evidenced to work, have implied Government assistance and backing, and were eventually extended to other forms of credit offered by largely private financial institutions. (Allon, 2009, pp. 372-373; Newman, 2008, pp. 750-752; Wray, 2009, pp. 57-60; Wyly & Crump, 2008; Wyly, Hammel, & Atia, 2004 (March), pp. 3-6).

The cementing of home ownership as bipartisan welfare policy by the Federal Government involved financial innovation. In the 1960s and 1970s the Federal Government legislated for depositary institutions to provide fair housing finance and equal provision of credit such that

15 A secondary market can be understood as: a market where investors purchase from other investors; and, in the case of GSEs, a market in which they purchase mortgages from issuing lenders. Broadly speaking, a secondary market is a place of trade where the proceeds go to an investor, and not the company or entity directly (in the case of the mortgages to the mortgagee).
households who qualified for mortgages could buy a home (Fannie Mae, -; Freddie Mac, -). Fannie Mae, and Freddie Mac purchased mortgage loans from lending issuers from the secondary market, and sold securities based on these mortgages, mortgage backed securities (MBS) in secondary markets (Fannie Mae, -; Freddie Mac, -). Ginnie Mae, a government owned corporation, is chartered to channel global capital into US housing finance markets by guaranteeing the timely payment of MBS held by international investors (Ginnie Mae, -). The financial innovation of mortgage pools backed by the Government and GSEs, according to the FFA, was first recorded as occurring in 1965. With private financial institutions creating asset backed securities (ABS) based on mortgage pools from 1984 onwards, according to the FFA. As can be seen by figure 22, the level of home ownership has not fallen below the 1965 rate. Whilst there have been fluctuations in the rate of home ownership, on the whole the trend is towards a growing rate of home ownership from the period 1965 to 2007.

In a way households’ consumption of credit is, also in part, includes the process of how the US Federal Government is supporting US households rising debt through the process of financialization – Epstein’s (2005:3) financial motive is evident. By providing and increasing underserved households access to mortgages, and increasing the availability of loanable funds more generally, the Federal Government elicited a change, whether implicit or explicit, in how households access financial institutions through financial innovation, in particular the reliance on home ownership as a key plank of social policy (Allon, 2009, pp. 372-373). The implication of households providing a major source of their own consumption, wealth and welfare through home ownership means that expectations are such that households will individually determine how credit is consumed. This determination takes place in an economic environment households’ income is stagnating or declining as wages and salary from employment are stagnating or declining.

The provision of accessibly mortgage credit to households that are low socio-economic status and/or belong to a minority group is the means through which the government is, in part, providing social services, social safety net, and welfare (Hackworth & Wyly, 2003; Wyly, Hammel, & Atia, 2004 (March)). The part provision of welfare in this way appears to be supported by the change in economic ideology, to that of neo-liberalism, adopted by Federal Government in the late 1970s/early 1980s. Through the making of mortgage credit more accessible to underserved households, according to this neoliberal ideology, the Government has provided the means through which households are able to improve their life, through the store
of wealth in home ownership. Because the taking on of mortgage credit is individualized at the household level, this also means that the aspects of class, gender, race or ethnicity is ignored (Wyly, Hammel, & Atia, 2004 (March)), as the Federal Government has provided access across the board to all households that are eligible. Access to home mortgages as welfare, provided through financial means, individualizes responsibility for the situation households may find themselves in, regardless of the broader economic situation.

4.5 Conclusion
Through the above discussion and analysis the broad idea of financialization espoused by Epstein (2005:3) is evidenced as occurring within the realm of the post 1980s US household. With financialization, in part understood as, the increasing role of financial motives, financial markets, financial actors and financial institutions, broadly comprehended, in the operation of the economy (Epstein, 2005, p. 3) can be seen to have impacted upon US households. With households, in aggregate, increasing their consumption of credit, households themselves can also be considered financial actors, due to their liabilities. The changes in the labor market and the attendant impact on wages and salary, and household changes in its consumption of credit illustrate that most US households have increasingly utilized financial motives to, in part, compensate for stagnating and/or declining income. There is a correlation between declining and stagnating household income for the majority of households and an increase in households’ overall consumption of credit. This correlation can be understood as the use of credit to make up the shortfall in households’ declining and/or stagnating real wages. The role of Federal Government social policy, in particular its focus on increasing home ownership levels of US households among minority groups and low socioeconomic status, has also played a role in increasing the link between US households and financial markets, and financial institutions. In this way financialization cannot be viewed as a singular process, and instead needs to be understood as multi-faceted, and involving multiple points of intersection and difference.
Chapter 5: Conclusion – the financialization story of US households

Their [less qualified workers’ households] level of living is declining, and they [less qualified workers’ households] are only too painfully aware of the fact because they [less qualified workers’ households] are accustomed to bourgeois pretensions. Furthermore, as the giant [finance capital] concerns expand, it is largely these badly paid positions which increase in number, while there is no correspondingly increase in the higher posts (Hilferding, 2006 [1910], p. 348).

5.1 Introduction
Returning to Epstein’s (2005, p. 3) definition, and having provided the broad trends affecting US households and their consumption of credit, the thesis now turns to how the previous chapters depict financialization in the US households, and making sense of how the consumption of credit by households can be understood through the lens of financialization. Krippner’s (2005, pp. 174-175, 181-182) categorization of how financialization is manifest in the US economy can be adapted such that the multi-dimensional framework is able to be adapted to incorporate the impacts on US households. There are five categories to Krippner’s (2005, pp. 174-175, 181-182) framework, entailing: increased shareholder value as corporate governance; the rise of capital market financial systems over bank-based mechanisms; the ascent of a rentier class; the increased volume of financial trading and instruments; and, increasing profit share through financial channels as opposed to trade and production. The focus of this framework is on the economy and non-financial firms, and does not explicitly incorporate households. In undertaking the previous analysis in the preceding chapters, qualitative and quantitative, applying this financialization framework to US households can be undertaken and a nuanced understanding of the relationships between financialization and US households can be ascertained. With financialization as a pattern of accumulation broadly identified as taking place from around 1980, this chapter will be focusing on the post 1980 patterns identified in the analysis undertaken above, as a financial pattern of accumulation is not discernable prior to 1980.

The structure of this chapter follows the five components of the financialization framework proposed by Krippner (2005, pp. 174-175, 181-182), and how this can be applied to US households to provide an understanding for how a pattern of financial accumulation has impacted upon households, in particular in the way that credit is consumed.
5.2 Ascendancy of shareholder value as a mode corporate governance

The main idea behind the ascendancy of shareholder value as a mode corporate governance is the increased and prominent importance given to the interests of investors, current and future, in the operation of non-financial firms, from the boardroom to the local workplace (Orhangazi, 2008a, pp. 868-871). The evidence of the increasing importance of shareholder value as corporate governance has been the: increased financial payouts by non-financial firms, in particular that of interest and dividend payments and stock buybacks, focus of non-financial firms on increasing their share prices, and the generation of profits (regardless from which activity they are generated) (Orhangazi, 2008a, pp. 868-871).

With investor interests viewed as paramount to the ongoing operation of non-financial firms, and increasing payments going to investors and to debt, all things being equal, there would be a decline in the capacity of non-financial firms to increase employment, the pay roll and/or provide for better salary and wages and conditions of employment. In this way there is a correlation to the ascendency of shareholder value as a mode of corporate governance, and the increased volatility of unemployment and declining and/or stagnating household income for the majority of households reliant on employment.

The analogous characterization of Krippner’s (2005, pp. 174-175, 181-182) shareholder value as corporate governance category, such that it can apply explicitly to the majority of households, is that of increasingly volatile unemployment and the stagnation and/or decline of salary/wages provided by employment.

5.3 The rise of capital market financial systems over bank-based mechanisms

Returning to chapter 2 the discussion of the different types of financial intermediation specifically that of the difference between financial intermediation involving deposit-taking banks only, and the securitization system of financial intermediation is what is typified by bank-based mechanisms and capital market financial systems (Shin, 2010, pp. 98-99). The securitized system of financial intermediation creates increasingly complex financial relationships that become more dependent on the conditions of capital market conditions (Shin, 2010, p. 102).

Specifically through analyzing the FFA undertaken in chapter 3 focusing on household credit, it is apparent that there is an increase in capital market financial systems over bank based mechanisms, and an increase in the types of financial instruments that are linked to household credit. From the analysis of chapter 3, the rise of securitization of household debts is an example
of this trend of capital market financial systems over bank-based mechanisms. Figures 16, 17 and 18 illustrate that all aspects of households’ financial market based credit, mortgage and consumer, has been securitized, thereby creating complex financial relationships between households and other financial actors that are dependent on the conditions of capital markets.

The Federal Government in chartering GSEs to engage in the secondary mortgage market to provide an increase in the available funds for mortgages started this trend towards the securitization of household credit. In relating this to US households and their consumption of credit, there is the increasing securitization of all categories of household debt.

5.4 The ascent of a rentier class
Krippner’s (2005, pp. 174-175, 181-182) depiction of the ascent of the rentier class is influenced by Hilferding. Hilferding (2006 [1910], 223-226), and Bukharin (1927, 15-34) theorize a structural change in capitalist economic development, that of the eventual transformation of industrial capital and finance capital into cartels which have interdependent relationships with each other (the rentier class), and the rise of a class of households whose main source of income is from financial means. It is this that is taken up in Krippner’s (2005, pp. 174-175, 181-182) framework for understanding the construct of financialization.

Returning to chapter 4, specifically the top quintile, determined by net worthy, households’ breakdown of household income depicted in figure 30, there is evident that this quintile is not as reliant on salary and wages as the rest of the 80% of households. With no other household type, as determined by net worth, following a similar pattern of household income sources, especially from interest, dividends and capital gains, this household stands apart and supports a plank of Krippner’s (2005, pp. 174-175, 181-182) financialization schema that of the rise of a rentier class (Hilferding, 2006 [1910]).

The top net worth quintile households, with access to a diversity of income sources not available to the majority of households in the remaining 80%, there is the development of a class of households that are able to secure household income through other means. Thus the ascent of a rentier class can be understood as the top quintile, as determined by net worth, households have ready access to alternate sources for the derivation of household income, and are not as reliant on the salary and wages of employment.
5.5 The increased volume of financial trading and instruments
Whilst the issue of financial trading and financial instruments has not been directly addressed, the increase of the securitization of household debt increases the volume of financial trading and instruments. With the MBS and mortgage ABS, along with the securitization of consumer credit (both non-revolving and revolving) being constructed and sold on capital markets, there has been increase in financial trading and instruments that arise from households’ credit since the initial construction of MBS in 1965.

The analysis undertaken in chapter 3, specifically section 3.3.3 highlights the rise of securitization of households’ credit. Specifically through analyzing the FFA, focusing on household credit, there is an increase in the types of financial instruments that are linked to household credit. There is a general acceptance that there has been an increased volume, overall, of financial trading and instruments in capital markets (Grahl & Lysandrou, 2006; Phillips, 1996). This increased volume of financial trading and instruments in capital markets of household debt means that US households with debt become dependent on the conditions of capital markets (Shin, 2010, p. 102).

An analogous categorization of a pattern of financialized accumulation as it applies to households, is the linking and dependency of households on the conditions of capital markets resulting from the securitization of all categories of household debt.

5.6 Increasing profit share through financial channels as opposed to trade and production
Non-financial firms in the US are increasing their profit share through financial channels, as opposed to trade and production (Krippner, 2003; Krippner, 2005; Orhangazi, 2008a; Orhangazi, 2008b). The increasing of profit share through financial channels has had a negative impact non-financial firms investment in investment in non-financial arenas (Orhangazi, 2008b).

The impact of non financial firms decisions on investing through financial channels, rather than non-financial avenues, on US households is correlated to increasingly volatile unemployment and stagnating and/or declining household income, where households are largely reliant on salary and wages for the compensation of their labor (see figures 25 and 26). Thus it is the 80% of households, the majority, that are affected by these non-financial firm decisions on investment. The increasing investment by non-financial firms in financial channels, along with the correlation
in volatile unemployment and stagnating and/or declining households’ income, is also correlated with households increasing consumption of credit. Suggesting that the increasing consumption of credit, is in part, understood as compensating for declining household income.

Thus, in understanding how households fit in within the category of increasing investment by non-financial firms through financial channels (Krippner, 2005, pp. 174-175, 181-182) is the correlation of rising credit consumption by households as a way to compensate for declining and/or stagnating household income.

5.7 Conclusion
The analysis undertaken in relation to US households’ consumption of credit from 1950 to 2007, has shown that there was a change in the pattern of accumulation that has broadly taken place since 1980. In particular within the household, the change in the pattern of accumulation has led to a major growth in the consumption of credit, in aggregate, by households. At the same time there has been a reduction, in aggregate, of household saving. Linked with most households experiencing stagnating and declining households income has been increased volatility of the labor market.

In terms of being able to characterize the US households, the utilizing the framework posited by Krippner (2005, pp. 174-175, 181-182) for understanding the multi-dimensional processes of financialization as a pattern of accumulation are:

1. increasing volatility of unemployment, and the stagnation and/or decline of salary/wages provided by employment;
2. increasing securitization of all categories of household debt;
3. the top quintile, as determined by net worth, households having ready access to alternate sources for the derivation of household income, and are not as reliant on the salary and wages of employment;
4. households being linked and dependent on the conditions of capital markets through the securitization of all forms of households’ credit; and,
5. rising credit consumption by households as a way to compensate for declining and/or stagnating household income.

From this analysis, it can also be identified that the Federal Government has also played a role in the financialization process, in introducing financial welfare specifically for providing the
capacity for financial institutions to provide access to the opportunity for eligible households to take out a mortgage, at a reduced cost to the lender.

Thus in examining the consumption of credit by US households, particularly post 1980, it would seem that for the majority of US households, credit has become an economic necessity rather than desire driven consumption.
Data Sources

Bureau of Census


Bureau of Economic Analysis

- Annual Industry Accounts - http://www.bea.gov/industry/index.htm#annual
- GDP - http://www.bea.gov/national/index.htm#gdp
- Personal Income and Outlays - http://www.bea.gov/national/index.htm#personal

Bureau of Labor Statistics

- Pay and Benefits - http://www.bls.gov/data/#wages
- Unemployment Rate - http://www.bls.gov/data/#unemployment

Federal Reserve

Bibliography


