

Debate

**The Collateralization of Social Policy under
Financialized Capitalism****Lena Lavinas**

ABSTRACT

This article examines how financialized capitalism has radically subverted the role and logic of social policy, provoking a sea change in the realm of social welfare, particularly in the global South, and breaking with previous frameworks which were grounded in principles of redistribution. In the process, new blueprints have emerged which raise concerns: re-commodification has replaced de-commodification; and debt, through financial inclusion, now serves as an alternative to exclusion. Drawing on the Brazilian case, the author scrutinizes the social protection paradigm that tends to prevail in the developing world in the 21st century, based on microfinance, conditional cash transfers, basic pensions and social floors. The author's assumption is that we are witnessing the collateralization of social policy: credit and debt, along with new financial devices, are becoming the cornerstones of what used to be social protection systems, so as to respond to the needs of finance-dominated capitalism. As a result, economic insecurity is likely to increase, accentuating inequality trends and exacerbating vulnerability.

INTRODUCTION

We will soon be able to look back on 40 years of welfare regime reforms — not only in Western economies, but also in the developing world, remembering that the full privatization of the Chilean pension system, implemented in 1981, had its roots in the late 1970s. This was a watershed of social policy design, provoking — for the first time in the post-war era — the complete retreat of the state from public provision, and

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fundamentally altering the idea of common good. Since then, we have witnessed profound transformations in capitalism, with Western regimes of accumulation moving from controlled and regulated financial sectors under Fordism to increasingly deregulated and liberalized markets under neo-liberalism, with notable impacts on social protection systems, whatever their main features. These systems have been subjected to constant restructuring waves, in which the role of the state and of the public sphere has been regularly upended. 'Public' has become increasingly private and has been taken over by finance.

On the periphery of the world, now renamed the global South, the starting point was rather different. In a context of great economic and social heterogeneity, with an almost unlimited supply of labour, developing countries' welfare regimes were either non-existent or incomplete, in the context of a truncated process of industrialization in these economies. A few decades of state-led industrialization and modernization efforts were not enough to overcome underdevelopment and make wage relations dominant, with salaries growing in line with gains in productivity and deeper specialization. Poverty continued to be widespread, inequality severe, exclusion the rule, and social policy, where it existed, fragmented, patchy and highly ineffective. Positive institutional complementarities between social and economic policy did not come about, because the long-awaited industrial catching-up never materialized.

Notwithstanding these circumstances, and despite a profound divide in terms of welfare designs, universalism and de-commodification were key features of the ideal social protection framework advocated by the International Labour Organization (ILO) in the 1950s — a goal to pursue. Instead of addressing solely destitution, social protection systems were expected to cover a wide range of contingencies, breaking the equivalence between income and well-being, to ensure that citizens, without distinction of status or class, would be offered the best standards available in relation to an agreed array of social services.

The start of the new millennium, however, witnessed the consolidation of an understanding that convergence across welfare regimes was unlikely, given new developments of ever-evolving capitalism. This is what emerges from the efforts of Abu Sharkh and Gough (2010) to map out social policies and welfare regimes. The authors recognize not only a persistent and long-lasting cleavage between advanced economies and the global South, but also a highly variegated pattern of welfare models among non-OECD countries. Despite divergent models marked by widespread 'ill-fare' provision and intermittent attempts to address people's most urgent needs, Gough and Therborn (2010) acknowledge positive trends and the emergence of novel social policies in the global South. Among them, highlighted as creative and innovative practices, they list a series of programmes whose common ground is to guarantee cash: conditional cash transfers, social pensions, microcredit

and provident funds are schemes that largely prevail over other types of social policies.

This brings me to the first point that I would like to make in this contribution to the Forum 2018 Debate, which focuses on ‘Financialization and Economic Development’: I want to draw attention to the pivotal role of cash transfers (either non-contributory or contributory) in times of financialized capitalism. As I will argue, the predominance of monetary transfers in the social protection paradigm in the 21st century through microfinance, conditional cash transfers, basic pensions and social protection floors, which is rampant in the global South, reflects the turn to finance-dominated capitalism and, as a consequence, to new blueprints for social policy. In this process, re-commodification takes over from de-commodification, and debt now serves as an alternative to exclusion, through financial inclusion. While unexplored mechanisms of expropriation abound, the expression ‘over-indebtedness’ — so frequently used, including in academic works — may rapidly lose its meaning, if what it designates becomes the lot of everyone in times of financialization. Debt appears to be essential to survive or to thrive, to escape poverty as well as to enjoy economic security. In parallel, redistributive conflicts will continue to be masked by growing access to credit and loans.

The aim of this article is to reflect upon the path taken by social policies under the aegis of financialization. Three steps will be taken to underline shifts in the domain of social policy and their consequences both for welfare regimes and for the promises of prosperity and security that were once the hallmark of welfare capitalism. First, I will synthesize the turn to neoliberalism and to finance-dominated capitalism and its consequences for the blueprint of social policy. Second, I will explain the predominance of monetary transfers in the social protection paradigm in the 21st century under the rule of financialization, through microfinance and conditional cash transfers in the developing world. Finally, I will argue that we are witnessing the collateralization of social policy with credit and debt becoming the cornerstone of social protection systems worldwide — especially in the global South — so as to respond to the needs of finance-dominated capitalism and interest-bearing capital.

FINANCIALIZED NEOLIBERALISM

Neoliberalism must be understood, as Fine and Saad-Filho (2016) put it, as a set of policies, institutions and practices underpinned by the looming role of finance in all spheres of market societies. These spheres range from production to daily life (Martin, 2002); they include nature and now, as the ultimate frontier of accumulation, also the social reproduction sphere (Fine, 2017; Himmelweit, 2016). Neoliberalism is the current stage in the development of capitalism, with all sorts of financial assets expanding much

faster than the real economy, featuring a new regime of accumulation named financialization.

As many have pointed out, financialization cannot be defined straightforwardly (Stockhammer, 2007; Thomson and Dutta, 2015; van der Zwan, 2014), although it does encompass some common trends (Goldstein, 2009). It refers to the dynamic of capitalist relations in which financial markets, financial actors and financial institutions (Epstein, 2014) dominate and drive accumulation, ensuring that profits tend to occur increasingly through financial channels, to the detriment of production and trade (Krippner, 2012). Financial returns tend to be extraordinarily high and short term, greatly outperforming rewards that could be generated by productive investment or labour. Several research findings (Bruno et al., 2011; Epstein, 2014; Palley, 2013; Stockhammer, 2004) suggest that finance has a negative impact on output growth, which corroborates the understanding that low growth is a result of the prevalence of rentier and interest-bearing capital over the real economy. It is now widely accepted that financialization tends to undermine productive and public investment (Bruno et al., 2011; Feijó et al., 2016; Orhangazi, 2008; Sawyer, 2016).

Clearly, for financialization to spread, it was crucial to liberalize and deregulate financial markets, as happened in the early 1970s with the collapse of the Bretton Woods system. Since then, finance has also invaded hearts and minds, reinforcing all dimensions of market-based provisions that expanded in line with austerity policies, leading to the erosion of public education, public healthcare and pay-as-you-go pension systems, consequently reinforcing privatization. Access to the financial sector and to financial products replaced public provision, which was under stress. In this sense, one might say that finance is achieving Shiller's hope that Wal-Mart customers might be brought to Wall Street (Shiller, 2003). As I see it, however, this is coming about without the advantages that Shiller predicted would be granted to all, across the board, by the sweeping extension of the domain of modern finance, the most essential of these benefits being economic security and well-being.

The periphery of capitalism did not escape this trend — quite the contrary. Bankarization and financial inclusion policies, focusing on low-income households, flourished and turned out to be among the main mechanisms to boost the rationale of financial capital beyond formal markets. They added another major dimension of financialization through the public debt management model (Bruno et al., 2011; Lavinias, 2017a).¹ Financialization is thus a global outlook that was initially thought to be characteristic of the restructuring of mature capitalist economies, but which is now acknowledged to have spread widely in the global South, irrespective of governments' political orientation. If wages generally tend to decline or stagnate under

1. For lack of space, this dimension will not be developed in this article.

finance-dominated capitalism, in emerging economies the opposite trend has prevailed (Gonzalez, 2015; Lavinas, 2017a). When examining financialization, authors also point to features such as the ascendancy of shareholder value over social and economic values; consumer-led booms based on credit; growing levels of household debt adversely impacting well-being and leading to vicious debt cycles and processes of continuous debt roll-over; and a pronounced shift from production to property (Fine, 2013; Palley, 2013; Paulani, 2016).

‘JUST GIVE MONEY TO THE POOR’

Let me turn now to my second point, which is the rise of a certain type of social scheme, in line with prevailing features of financialized neoliberalism, such as the increasing privatization of public goods and services and the principles of fiscal austerity, which shift the burden of debt from states to households and individuals. What kind of social schemes am I talking about? One might answer with a formula that was seen more commonly at the turn of the millennium, initially through microcredit initiatives and later through conditional cash transfers. It was later framed as ‘just give money to the poor’ (Hanlon et al., 2010). The predominance of monetary transfers as the bulk of social policy, to the detriment of de-commodified services, is a major trait of financialized neoliberalism.

Microcredit has been present in many British colonies since the beginning of the 20th century, but it became a flagship tactic, particularly in South Asia, with the fleshing out of neoliberalism and financialization in the 1990s. Conditional cash transfers (CCTs) came into fashion in the 2000s (Lavinas, 2013), with Latin America as the role model, underpinned by pink-tide governments that were supposed to finally address long-standing inequalities in the most lopsided region in the world. What do microcredit or microfinance and CCTs have in common, beyond targeting the most destitute and deprived groups — which means billions of people, let’s not overlook the scale — who were permanently excluded from the realm of rights? Although in different ways, both microfinance and CCTs reshape and redefine social policy by making it work primarily as a means to market incorporation and financial inclusion.

Microcredit has served as a social policy from the start (Mader, 2015). Indeed, this is a major feature of microcredit and microfinance: they spread in areas where a vacuum in social policy called out for mechanisms to provide some relief while extending markets. These approaches were meant to lift the poor from subsistence levels by strengthening market relations, which were inhibited. They were needed to boost and deepen aggregate demand to expand and pave the way for the crystallization of capitalist relations. To this end, increasing monetization was crucial. Social policy should thus be taken as an intervention oriented towards modifying the realm of social

reproduction,² either through commodification or de-commodification (according to the regime of accumulation), with direct impacts on the welfare of citizens (Marshall, 1950). Taking the example of Bolivia, it is no accident that microfinance, which was disseminated in times of structural adjustment and was initially extremely popular, contracted sharply soon after an individual universal pension (*Renda Dignidad*) was granted to the elderly under President Morales. Microfinance and microcredit appear to be negatively correlated to other modalities of social schemes.

As for conditional cash transfers; they were introduced in Chile in the early 1980s, but they attracted mounting interest in the 2000s. Why? Because they were cheap, easy to manage and politically rewarding, to say nothing of the fact that they are a major trump card in solving market failures. Ultimately, they end up being regressive. This is the case with the *Bolsa Família* programme in Brazil,³ which is funded entirely through indirect taxation on consumption with no tax deduction for basic needs. It is worth remembering that modern fiscal policy advocates consumption taxes as a way for the state to collect fiscal revenues without distorting market equilibrium. Because the tax system is extremely regressive in most developing countries, taxes are concentrated mostly on consumption and only marginally on income and wealth. CCTs, as a paramount social scheme, reinforce this trend. In so doing, their redistributive impact is lowered and they become less effective in combatting inequality and poverty, for they provide a net transfer which is far smaller than the nominal one.⁴

These anti-poverty, means-tested programmes vowed to break away from corporatist structures of social protection. The argument was that contributory schemes could not reach the poor, a fact that is indisputable within any Bismarckian-model welfare regime. However, these anti-poverty programmes were not structured as unconditional rights, and in the end they simply rehashed old mechanisms of selectivity and residual welfare, in a process of individualization, rather than upholding principles of solidarity and social cohesion.

Both microfinance and CCTs take the form of cash — either loans to stimulate production in rural areas or in the service economy, where informal workers prevail, or fiscal monetary transfers. In both cases, they boost consumption, increasing the market nexus, by incorporating into the market those who used to be on its margins, forever slipping in and out of inclusion.

2. For Titmuss (2001: 211), ‘social policy can be seen as a positive instrument of change; as an unpredictable, incalculable part of the whole political process’. It is supposed to promote social change.

3. *Bolsa Família* is an anti-poverty programme launched during President Luis Inácio Lula da Silva’s first term (2004). It provides a monetary transfer to poor households with children, conditional on school attendance and visits to medical centres. In 2015, 14 million recipient families received an average monthly stipend of US\$ 50.

4. In Brazil, estimates suggest that 52 per cent of the average *Bolsa Família* safety net returns to the state as taxes (Lavinás, 2017b).

These mechanisms also expand the reach of finance by offering credit as an alternative to fill income gaps. Both, moreover, are justified by the argument that they make individuals and households more responsible, either by contracting debt or by accepting conditionalities. As a result, microcredit and CCTs act as a moral lever aimed at transforming the behaviour of the poor and those at the bottom of the social ladder. It is said that ‘inclusive financial systems’ (Demirgüç-Kunt et al., 2008) equalize opportunities, thus lowering inequality and staving off poverty, as well as simultaneously helping to boost economic growth.

For all this, finance is cast as the best way of improving the welfare of all, and not only of impoverished households. First, it disciplines the poor, since ‘regular repayments are said to impose discipline on borrowers’ (ibid.: 123). Such self-control is key in the effort to make borrowers responsible in managing irregular income streams, something made possible by receiving credit.⁵ Poverty has thus been transformed into a ‘bank problem’. Consequently, the more effective way to address poverty would be by incentivizing access to formal financial institutions and services, or, put in a different way, by stimulating a ‘borrower behavior’ (Rojas-Suarez, 2016) which, in times of financialization, is considered strategic in managing risk. No one cares if borrower behaviour — seen as ‘rational’ — leads to household over-indebtedness, defined as impoverishment through debt (Guérin et al., 2014: 2) and ‘involving power relationships as well as issues of wellbeing, status and dignity’ (ibid.: 3).

The antidote to over-indebtedness would lie in promoting financial literacy (Santos, 2014), an illusion that has gained momentum and may at least partly supplant formal schooling. This explains why central banks within the G20 added to their primary functions of managing monetary policy and guaranteeing financial stability with the aim of promoting financial inclusion, thereby contributing to selling the illusion of economic democracy by means of differentiated and personalized financial services and several modalities of consumer credit. We see central banks involved in promoting financial literacy among welfare recipients, as in Brazil (Lavinas, 2017a). These programmes, resting on a complex set of rhetorical and regulatory processes, have facilitated and normalized reliance on all sorts of lines of credit, paving the way to the deployment of financialization.

Second, finance introduces the rationale of collateral⁶ — that is, incentivizing people to accumulate savings and other small assets to reduce transaction

5. This moral dimension of discipline is a fundamental element in all so-called poverty-mitigation mechanisms under the aegis of neoliberalism, whether in the financial sphere or in terms of safety nets structured by conditionalities designed to encourage and incentivize good behaviour on the part of the poor. This line of thinking would indicate that poverty is still seen as the product of laziness and passivity, casting it as a choice (see Lavinas, 2013).
6. Something pledged as security for repayment of a loan; the collateral serves as a lender’s protection against a borrower’s default.

costs and facilitate the development of an investor mentality. As Schwittay (2014) put it, savings, insurance and fully funded pension systems aim to instil financial values. Thus, low-income and poor households would be able to ‘invest’ in education, buy a healthcare premium, start a business, and in so doing provide themselves with a cushion to cope during lean years, instead of depending on state subsidies and other forms of social spending, which run counter to the neoliberal principles of a slim state.

THE COLLATERALIZATION OF SOCIAL POLICY

Regular income streams are essential to smoothing the process of market incorporation, but also to stimulating and amplifying financial inclusion. They serve as collateral in a world in which debt is gaining ground as a result of the expansion of various forms of consumer credit, which enables households not only to access durable goods, but essentially to meet daily needs and cope with contingencies.

In the 1990s, the turn to fully funded pensions in Latin America was an attempt to fuel the expansion of stock markets, which had been constrained, and to make private investments take off. But in the second half of the decade, a severe economic crisis hit the region and dashed those hopes. Financial markets, and the credit market in particular, failed to progress as expected, despite the ongoing process of financial deregulation and liberalization. Brazil may serve as a groundbreaking example of this trend. Despite a profound financial reform under way, total outstanding credit as a share of GDP barely rose from 1990 to 2004, accounting for only 22 per cent in 2001. This first wave of financial liberalization did not really fuel investment or consumption. The outlook changed radically from 2004 on, not only with the new cycle of economic growth, but mainly by virtue of the various measures taken by the centre-left government then in power to expand personal credit (Lavinás, 2017b). While the wage bill doubled between 2002 and 2013 in Brazil, total credit soared 250 per cent, and personal credit nearly quadrupled. Personal and consumer credit grew at a much faster pace than total wages and the supply of total credit. By December 2015, personal credit to households accounted for 47 per cent of total outstanding credit operations, which reached 55 per cent of GDP (*ibid.*).

These major changes were possible because of an articulated strategy set up to give a boost to financial inclusion. One part of this strategy was the bankarization of the poor, namely those on welfare programmes (Bolsa Família or Continuous Cash Benefit⁷). First, they received a debit card so they could withdraw their benefit, and later they were shifted to individual

7. Continuous Cash Benefit or BPC is a welfare programme targeting the disabled and the elderly (over 65 years old) whose per capita family income is below the poverty line of a quarter of the regular national minimum wage (at about R\$ 230 or US\$ 70). By contrast,

bank accounts. These accounts charged no fees, but allowed users to contract a wide range of cheap services, such as insurances for funerals, etc. Bolsa Família recipients with an ID could also take out loans at retail stores to buy household items, with nominal interest rates ranging from 75 per cent to 125 per cent per annum. The Brazilian centre-left government also launched consigned credit some months before the creation of the Bolsa Família programme. In essence, consigned credit is a loan in which repayment instalments are deducted automatically from paychecks (in the case of civil servants and formal salaried employees) and from public retirement pensions and survivors' benefits. The cap on these repayments is set at 35 per cent of net income. Once agreed, the borrower's authorization is irrevocable. Today, consigned credit is one of the most profitable activities for retail banks in Brazil. Average monthly nominal interest rates range from 2.9 per cent to 4 per cent (the inflation rate forecast for 2017 is around 5 per cent).⁸

This confirms a crucial aspect of consigned credit in Brazil. Most of its clientele (over 90 per cent) rely on a very specific form of collateral: regular income paid by the state, whether in the form of salaries or as a social security benefit. This social engineering gave unprecedented access to financial markets to previously marginalized income pools that lacked collateral. Here, the novelty was the institutionalization of a long-absent connection between credit, on the one hand, and wages and benefits, on the other, with the state serving as the principal underwriter. The reach of consigned credit was not limited to the credit market for low-income sectors, but expanded to a broader access to financial markets, as it was expected that the stimulus from the demand for consigned credit would boost the sales of banks' other services and products (checking accounts, credit cards, investment funds, private pension plans, private health insurance plans).

The state's role goes even further, however, in that it eliminates other costs for the financial sector — such as missing documentation or credit records for low-income or poor clients — factors that stand as eligibility barriers for borrowers, raising both costs and risks for the banks involved. According to the Brazilian Central Bank, in December 2014, one-third of all consigned consumer loans and a quarter of total non-consigned credit went to households with a monthly income equivalent of up to three minimum wages (US\$ 820). This proves that low-income families or the 'new middle classes' have been at the forefront of the banks' strategies in expanding access to credit. In the same year, of the 56 million borrowers who took

Bolsa Família targets poor families whose poverty threshold is much lower (R\$ 187 or US\$ 55).

8. Figures for 2017 are from the Brazilian Central Bank, Time Series Database for 2014, 2015, 2016, 2017; see: www.bcb.gov.br/en/#!/n/TIMESERIESEN.

out loans from financial institutions, 34.4 million earned less than three minimum wages.⁹

This is the positive side of the phenomenon. The worrisome part, meanwhile, is that the debt/income ratio for these borrowers — estimated via the income declared by borrowers when taking out each loan — hit an average of 64 per cent in 2014. For the lowest-income borrowers (those earning up to three minimum wages) the debt/income ratio stood at 73 per cent. Since default depends on the degree to which household income is compromised by repayment and interest-related expenses, there is no doubt that the groups most at risk of default are precisely those at the tail end of the income distribution.

It is no secret that in Latin America social spending consists predominantly of monetary transfers, either contributory or non-contributory; publicly provided services (in kind) play a minor role. Brazil is no exception. Despite having introduced a wide range of provisions and entitlements in 1988, and having experienced a period of economic recovery in the 2000s that strengthened the social security budget, social policy in Brazil relies mainly on monetary transfers. In 2015, two-thirds of social spending in Brazil took the form of cash transfers, to the detriment of de-commodified forms of direct provision (Lavinás, 2017b: 7). The provision of public services such as healthcare and education continues to fall short. To meet their needs, Brazilians take out loans or increasingly buy private insurance.

The credit market boom throughout the 2000s was made possible by mass indebtedness, which became a marker of ‘social inclusion’. The constant renegotiation of debt was cast as an alternative to marginalization. Households and individuals internalized the notion that financial markets and dependence on credit could answer their concerns and their needs. I argue that social policy has played a crucial role in advancing financialization and reducing the scope of rights and entitlements. Social policy was key to boosting domestic demand in Brazil from 2004 to 2014. It did not, however, provide public goods and services that would in turn ward off a wide range of social risks and enhance competitiveness, fostering a more homogeneous society (as happened under the Keynesian welfare national state). Rather, social policy served as collateral to access financial markets through credit, facilitating an intense process of financial inclusion. As such, it has supported debt-financed spending at the expense of the provision of public goods and services. What we have seen is social policy being taken as a mechanism to secure credit, and consumer credit in particular.

Before wrapping up, I would like to turn briefly to social protection floors, lauded as a 21st century blueprint framework, under a large and unprecedented agreement among multilateral organizations including United Nations agencies, the International Monetary Fund and the World Bank. The

9. See Brazilian Central Bank, Time Series Database: www.bcb.gov.br/en/#!/n/TIMESERIESEN.

bottom line consists of providing a basic set of guarantees for all, in particular basic income security through means-tested programmes. This means that regular cash is ensured to some specific categories, such as single mothers, the long-term unemployed or underemployed, seniors with no pensions, deprived children, and all those who live on the seesaw of poverty, constantly swinging up and down, depending on the macroeconomic context. In short, those whose income streams are erratic and volatile must be granted permanent income flows. Some basic or 'essential' services are also to be provided, mainly elementary education and primary healthcare, focusing especially on neonatal and natal care. The idea is to have 'policies and programs focusing on income security accompanied by the extension of essential services' (ILO, 2011: xxvi). For all the rest, market provision will be available through access to a variety of financial devices, in the form of student loans, payday loans, consumer credit, all sorts of insurances tailored to one's needs and budget, and so on.

The aim of the social protection floors framework is thus twofold and integrated: protecting basic livelihood as well as promoting risk taking, in a conception that clearly dovetails with Robert Shiller's assumption that one must 'take great risks for good purposes' (2003: 1), if the ultimate goal is to overcome risk. Since modern finance has a bountiful array of risk-management industries designed to provide a certain measure of economic security in times of economic hardship and welfare losses, the only thing left to do would be to establish the necessary links in a more proactive manner.

The state would be left behind with the complementary role of providing social safety nets for risk-coping — mainly for the poor — and plugging holes here and there (such as unemployment benefits), as well as providing a legal environment through which to facilitate the functioning of these extended financial markets. Non-contributory basic or universal pensions,¹⁰ for instance, targeting those who fail to meet their contribution requirements, and crucial to prevent or mitigate poverty among the elderly, also become strategic in ensuring regular income streams. And these streams are indispensable for securing new loans. Instead of resisting markets, social protection systems — now downgraded to market-protection schemes — become a new frontier by which finance may disseminate new devices for risk management and mitigation. The institutions and mechanisms that made it possible to prevent risks and cope with uncertainty through a risk-sharing system based on progressive taxation and comprehensive welfare systems are thereby increasingly rendered obsolete.

10. This modality of retirement benefit has expanded widely in developed countries, as well as in middle- and low-income countries. In South Africa, it is known as the State Old Age Grant; in Chile, as the 'solidarity pillar'; in Bolivia, as Renda Dignidad. Similar benefits exist in New Zealand, The Netherlands and Australia, mostly not subject to means testing and on a much higher level.

BY WAY OF CONCLUSION

Today, debt is reshaping the role of the state, the ‘content of citizenship’, and the ways individuals become part of a global market consumer society. Debt also defines one’s future opportunities, since modern finance has upended the logic of access to rights. In a very insightful article entitled ‘Theorizing Financialization’, Lapavistas (2011: 620) states that financialization started as a process initiated by large corporations, which became ‘more heavily involved in financial activities on their own account’ and less dependent on banks. This means that they started trading credit, securities, bonds and equity in the stock markets, which provoked a profound restructuring of the banking system. As Lapavistas put it, banks have since turned toward households and individuals as sources of profits, as well as to ‘investment banking’ broadly understood. Almost 50 years on, investment banks have realized that they should extend their activities far more drastically and start lending to the masses, including the poor.

That is Goldman Sachs’s new approach, through a new branch named Marcus. Marcus is an online lender for anyone interested in taking out a loan. It is not an online bank — and the distinction here is interesting. This market has been estimated at US\$ 1 trillion and is a very competitive one. Marcus provides ‘unsecured personal loans’. Given the risks, lending to the masses without any collateral should be not only profitable, but extremely profitable. This is what it looks like: in times of interest rates close to zero, Marcus offers personal loans with rates ranging from 5.99 per cent to 22.99 per cent, and loan terms from 24 to 72 months. Marcus’s differential lies in offering fixed-rate, no-fee loans. Loan amounts start as low as US\$ 3,500 and go up to US\$ 30,000 in this preliminary phase. In the second stage, you customize your loan. By choosing a tailored monthly payment option that fits your schedule and budget, debt will not be a problem anymore, but something you can deal with.

Interest-bearing money is striding ahead, amid high unemployment rates, precarious jobs, income shocks, stagnant or declining wages, and notably low-quality and insufficient public provision and cuts in welfare benefits. I had not anticipated that things would move so fast that even collateral requirements might be relaxed. In fact, this is made possible by amplifying the securitization of debts and deepening household dependence on new and permanent loans. The relevance of debt has surpassed that of collateral in capital markets. Financial innovations are based on individual loans secured by income, as one of the building blocks of a securitization dynamic that enables the continuous renegotiation of debt, expanding and consolidating new financial instruments; but at the same time, creditworthiness is just disregarded and thrown away.

New markets based on collecting and trading debts are emerging and redefining the so-called welfare–credit link, as it came to be known in the

USA, where the idea of credit as welfare offset the limits of a residual welfare state. Lendol Calder (1999) and, more recently, Gunnar Trumbull (2012) have emphasized the welfare-enhancing role of consumer credit, as well as its risks and trade-offs. Derivatives, securities, the securitization of debts, social impact bonds, micro-loans . . . whatever the wording, finance is literally revolutionizing the world of social policy and, accordingly, the role of the state. Social Impact Bonds (SIBs), for instance, are cast as contemporary forms of humanitarian finance, as Andreu (2017) points out. In short, the idea is that investors (from individuals to pension funds and mutual funds) achieve social or environmental impacts while earning financial returns on capital. There is a dual objective. The goal is to narrow public services expenditure gaps by making ethical profits. If the project delivers the impact, then the government or whatever funder pays back the principal to the investor, plus a financial return.

The International Red Cross jumped in and announced the creation of a humanitarian impact bond to finance physical rehabilitation services in countries affected by violence and conflict. This example raises two sets of questions. First, are we promoting war, if investors make good profits by financing rehabilitation services in areas affected by war? Why would they support peace? And second, what if those who profit from wars — by selling weapons, for instance — were equally interested in investing in social impact bonds? Would they be allowed to do so? Is morality an issue or will pragmatism win out?

We could pick another example: ABS (Asset-Backed Securities). To put it simply, securitization describes a process of aggregating individual debts (assets such as car loans, student loans, credit cards receivables, microcredit loans), transforming this packet into a security, and selling it to third-party investors, such as mutual funds or pensions funds. By so doing, banks and financial institutions mitigate their exposure to debt default. In this new world of credit markets, debts become the underlying assets for more debts. Since the 1990s, consumer credit has been largely financed via securitization (Gorton and Metrick, 2012), which means that pools of loans (or debt obligations that generate cash flows) are now increasingly sold on capital markets. Lending — that is, debt creation — is therefore necessary for the development of a crucial dimension of modern finance, securitization, which is a financial segment largely unregulated.

Being indebted and living in debt may become the norm, notably in times of neoliberal austerity policies. As a result, the role of social policy and its traditional complementarity to economic policies is being reshaped. Instead of consuming credit to buy commodities or services, people will consume debt. Is debt, in any circumstance, a mechanism of empowerment, as many believe it to be? Or is the debt–creditor relationship still based on dependence and domination, on power relations? Will needs be transformed into wants, sweeping away rights?

New schemes unforeseen until recently are already out there, imposing reconceptualization and re-semanticization. And also calling for action. Financialization is making not only the poor increasingly dependent on credit and loans, but also the middle classes, who turn to financial instruments in their striving to preserve status and security. We are definitely in a new world. Orange is the new black — in for-profit prisons, of course, whose stock prices soar in line with the increase in the number of inmates — and the politics of debt, as Susanne Soederberg (2014) puts it, is the new concept for improving well-being, through the re-commodification of social needs. No more welfare states, but rather ‘debtfare states’.

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