INTERNATIONAL MAX PLANCK RESEARCH SCHOOL
on the Social and Political Constitution of the Economy
Köln, Germany

IMPRS
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Felipe González

Micro-Foundations of Financialization

Status Anxiety and the Market for Consumer Credit in Chile

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Published by IMPRS-SPCE
International Max Planck Research School on the Social and
Political Constitution of the Economy, Cologne
http://imprs.mpifg.de

ISBN: 978-3-946416-09-8
DOI: 10.17617/2.2214572

Studies on the Social and Political Constitution of the Economy
are published online on http://imprs.mpifg.de. Go to *Dissertation Series.*

Studies on the Social and Political Constitution of the Economy

Abstract

This project provides new answers to an old question: "Why do people become indebted?" The challenge of this dissertation is not to explore new and undiscovered subjects, but to tackle a topic that pervades discourses in the media, academic circles, and conversations of ordinary citizens alike. Credit is indeed a crucial ingredient of the profound transformations experienced in Chile during the last decades, and most Chileans have acquired consumer debts at some point. After all, in Chile everyone has something to say about debts. The financialization of consumption has deep consequences in the everyday life of Chilean families. For that reason, indebtedness is a much discussed and controversial issue. Some argue that increasing access to credit is a sign of the "good shape" of the Chilean economy, irrefutable evidence of the benefits of embracing the market ideology. Others warn that the increasing indebtedness of Chilean families resembles the burden imposed by the privatization of public services. In any case, it demands systematic interpretations and breaking with conventional wisdom on the matter, largely monopolized by economists. The contribution of this dissertation does not lie in the sophistication of its methods. But its strength rather stems from the effort of integrating multiple approaches, and providing an empirically informed narrative from a predominantly sociological perspective. Unlike most research conducted in the field of political economy, which privileges the study of aggregated data on consumption, debts, and interest rates, this research opens up the "black box" of households and studies "real consumers." But unlike most ethnographical research on credit and debts carried out in developing countries, it also accounts for the political foundations of consumer lending. Such integration requires a dialog between two fields that share interests, concepts and diagnoses, but that remain largely disconnected: the political economy of consumer lending, and the sociology of consumption and finance. This dissertation is not ascribed to any of these disciplinary fields in particular. It is rather "in the middle." It brings the structural analysis of "privatized Keynesianism" into the qualitative analysis of people´s everyday lives, aspirations, beliefs and practices. And vice versa, it scrutinizes the major assumption of "big narratives," and goes back to them with fresh insights and conceptual refinement. Much research has yet to be conducted on this subject. This project provides a first attempt to address the financialization of consumption in Chile in its most fundamental and encompassing aspects.

About the author

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Studies on the Social and Political Constitution of the Economy

Micro-foundations of Financialization: Status Anxiety and the Expansion of Consumer Credit in Chile

Inauguraldissertation

zur

Erlangung des Doktorgrades

der

Wirtschafts-und Sozialwissenschaftlichen Fakultät

der

Universität zu Köln

2015

vorgelegt

von

Felipe González

aus

Santiago de Chile

Referent: Prof. Dr. Jens Beckert

Korreferent: Prof. Dr. Akos Rona-Tas

Tag der Promotion: 30.6.2015

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PREFACE AND ACKNOWLEDGMENTS

This project provides new answers to an old question: "why do people become indebted?" The challenge of this dissertation is not to explore new and undiscovered subjects, but to tackle a topic that pervades discourses in the media, academic circles, and conversations of ordinary citizens alike. Credit is indeed a crucial ingredient of the profound transformations experienced in Chile during the last decades, and most Chileans have acquired consumer debts at some point. After all, in Chile everyone has something to say about debts.

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The contribution of this dissertation does not lie in the sophistication of its methods. But it strength rather stems from the effort of integrating multiple approaches, and providing an empirically informed narrative from a predominantly sociological perspective. Unlike most research conducted in the field of political economy, which privileges the study of aggregated data on consumption, debts, and interest rates, this research opens up the "black box" of households and studies "real consumers". But unlike most ethnographical research on credit and debts carried out in developing countries, it also accounts for the political foundations of consumer lending.

Such integration requires a dialog between two fields that share interests, concepts and diagnoses, but that remain largely disconnected: the political economy of consumer lending, and the sociology of consumption and finance. This dissertation is not ascribed to any of these disciplinary fields in particular. It is rather "in the middle". It brings the structural analysis of "privatized Keynesianism" into the qualitative analysis of people´s everyday lives, aspirations, beliefs and practices. And vice versa, it scrutinizes the major assumption of "big narratives", and goes back to them with fresh insights and conceptual refinement. Much research has yet to be conducted on this subject. This project provides a first attempt to address the financialization of consumption in Chile in its most fundamental and encompassing aspects.

Starting a research project and bringing it to an end is a collective endeavor. This project dates back to my work as young researcher in Chile, at the department of Sociology of the Universidad Alberto

Hurtado. I want to thank Claudio Ramos, Alejandro Pelfini, Pedro Güell and Marco Moreno, whose support was crucial to conceive this project and pursue an academic degree. My recognition also goes to Prof. José Ossandón, who encouraged me to pursue a research agenda that he himself started on the market for consumer credit in Chile. I am very grateful to him for his support during these years.

The Max Planck Institute and its staff provided the best possible conditions to conduct this research, and prompted the most enriching exchange with colleagues and scholars from different disciplines and cultures. I owe much to Prof. Jens Beckert, who supported and guided me throughout these years, and made my fieldwork in Chile possible. I am also grateful to Prof. Akos Rona-Tas, who hosted me as visiting student at the University of California, San Diego, engaged actively with my work, and helped me improve it.

This project was also possible thanks to the collaboration of many people in Chile: families that shared their experiences, aspirations, frustrations and hopes; and busy experts that took the time to share their expertise. I want to thank Tomás de la Fuente, who guided and helped me find my way for investigating the financial industry in Chile.

I also want to thank my colleagues and friends: Marcin and Markus, Matías, Aldo and Malú, for sharing their friendship and wisdom, and supporting me countless times throughout these years. My thankfulness to the inspiring discussions with the “financialization group”: Daniel, Phil, Richard and Jan. Gratitude also goes to my friends in Cologne, Andrés, Roberto, Waly and Orson, with whom I shared some of the best moments.

This dissertation was also possible thanks to the support provided by the National Research Commission of Science and Technology, CONICYT. I also received financial support from the Max Planck Institute.

Finally, my endless gratitude to my family, friends and loved ones in Chile. I owe to much María, Ramón, Pablo, Alejandra, Lorena, Leonardo, Ilich, Tomás and Yéssica; and to my nephews, Mane, Luciano, Lukas, Lucía and Martín; all of them gave me the strength to pursue an ambitious project far away from those I care the most. Special thanks to Pía, who supported me in materializing this project from the beginning, even under the most adverse circumstances.

To my parents and nephews

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CHAPTER 1 INTRODUCTION: THE FINANCIALIZATION OF CONSUMPTION IN CHILE

Chile became a country of debtors over a span of just twenty years. Facilitated by the financial innovations carried out by department stores during the 1970s, the market for consumer credit in Chile started with a faint penetration in the late 1980s to explosively expand during the last two decades. By 1995, one and a half million households already had consumer debt and five million credit cards were circulating around a country of fifteen million inhabitants (CCS 1995). Between 2000 and 2009, household debt grew three times faster than the entire economy,[1] and the debt-to-income ratio rose from 35.4% to 59.9%. In 2012, the Household Financial Survey carried out by the Chilean Central Bank reported that 68% of Chilean households have consumer debt uniformly distributed throughout the social structure.

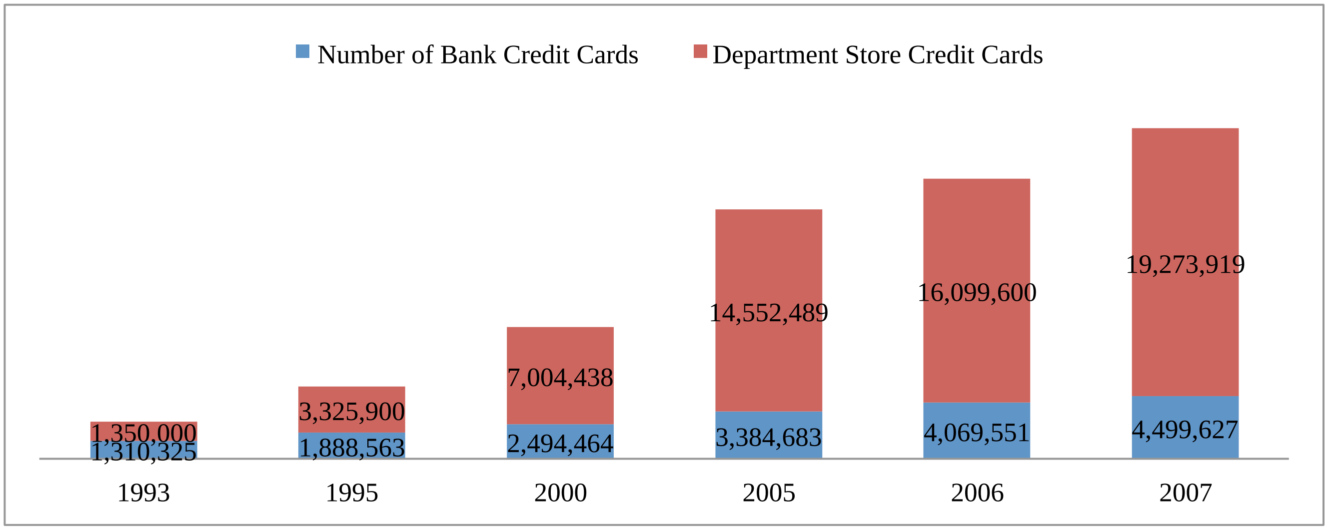
The financialization of consumption in Chile followed its own path. Unlike frequently studied cases such as the United States (Manning 2001; Hyman 2013), United Kingdom (Montgomerie 2006b; Trumbull 2008; Langley 2010), France (Trumbull 2012b; Trumbull 2010) and Eastern European countries (Guseva 2005; Róna-Tas/Guseva 2014; Guseva/Rona-Tas 2001), the current expansion of consumer credit is led not by banks or other specialized financial institutions, but by department stores. In a context where an important part of the population has limited banking access, Chilean department stores financialized low and middle income consumers by embracing risk-based classification techniques and by issuing their own credit cards (Ossandón 2013).[2] Indeed, although the number of bank credit cards in Chile increased from 1.3 million in 1993 to 4.5 million in 2007 (Barros 2009), those issued by department store ballooned during the same period from 1.3 million to 19.3 million (Montero/Tarjizán 2010).[3] These credit cards have evolved from within-store installment purchases to revolving credit and immediate ATM "cash withdraws". Today a dense network of payments exists, complete with affiliate stores and services such as supermarkets, private clinics, pharmacies and gas stations. What made this expansion possible and why do Chilean families take on so much consumer debt?

[1] The average annual growth of household debt was 12% (14% consumer credit and 12% mortgages), while the average annual growth of the economy was 3.6%.

[2] This successful business model is currently being expanded to other countries such as Perú, Argentina, Colombia and Ecuador.

[3] In a country of sixteen million inhabitants according to the last Population Census carried in 2012.

Figure 1: Evolution of Number of Bank and Department Store Credit Cards in Chile



Source: data taken from Montero (2010)

The financialization of consumption in Chile went hand in hand with several structural changes that took place in the Pinochet era and consolidated after the democratic transition in 1990. These changes were characterized by a profound transformation of the occupational structure, liberalization of trade, commodification of social services, increased access to education, social mobility, sustained economic growth and an important reduction of poverty characterized such changes. As a result, in a span of twenty-five years Chile experienced a radical transformation in the living conditions of its citizens and families. Within the context of persistent and high levels of income inequality, Chilean families have seen how goods and services flooded supermarkets and shopping malls. An important share of the population –the so called "new middle class"- witnessed and increasingly participated in an unprecedented affluence, characteristic of societies that have reached "post-materialist" standards; that is to say, standards of societies that have increasingly moved away from scarcity and basic necessities, shifting their concerns from material security to more intangible and moral concerns of social equality and inclusion (Inglehart 2007).

Within this particular context, consumer credit in its different forms is now considered a crucial ingredient of the "Chilean modernization", undeniably linked to the rise of shopping malls in the urban centers and the consolidation of new elites. These families, with a tradition in commerce dating back to the late nineteenth century, were favoured by the structural transformations carried during Pinochet´s dictatorship and saw the oportunity to expand their dominance of domestic markets to new heights.

Their main innovation carried out during the 1980s, the "department store credit card", transformed a population with low income into an untapped consumer base consumers (Ossandón 2013). At the same time, it provided the new "aspirational" middle classes with the means to fulfill expectations of reaching standards of living that have been historically restricted to the wealthiest citizens. Turning the middle-class into subjects of credit first and the less privileged groups afterwards became a highly profitable business for companies that were previously exclusively focused on commercial activities, but now displace banks as the main source of credit for a sizable percentage of the population.

The financialization of consumption is an ongoing process. As the business becomes more profitable and the market more competitive, companies refine their risk-based classification systems, learn from consumer behavior and arrange a set of organizational technologies in order to target new populations. New consumers' profiles emerge in the laboratories of marketing professionals and data miners. The frontiers of the market have expanded throughout the 1990s to the 2000s from the middle class household head to the low income housewife; from the young professional to the undergraduate student; and from the active labor force to the retired worker whose lean but stable pensions are accessible to the lenders that administer them, the so-called "Cajas". Now well into the twenty-first century, as Martuccelli (2012b) say, consumer credit seems to have consolidated in the Chilean society as a "legitimate means to acquire what are considered legitimate goods".

1.1. The Political Foundations of Consumer debts

As one would expect, the rise of consumer lending signified a radical change in the economic life of Chilean families and called the attention of several observers in the media, politics and academic circles. Conservatives warn that Chilean consumers entered onto escalating dynamics of conspicuous consumption, while critics argue that it is a consequence of putting the financial burden into the shoulders of households. In this respect, what explains the gap between "aspirations" and income in a country that experienced sustained economic growth?

The peculiar path followed by consumer lending in Chile raises in first place a striking puzzle for the literature dealing with the rise of consumer debt in contemporary capitalist democracies: the financialization of consumption in Chile does not go hand in hand with wage stagnation and the deterioration of the middle-class that followed the demise of Keynesianism in the developed world. Quite to the contrary, the market for consumer credit in Chile expanded in the context of rising wages, sustained economic growth, reduction of poverty and collective improvement. Furthermore, since department store credit cards have been mainly attached to within-store purchases, consumer debts in Chile have served less as a means to “smooth” consumption in the face of income shocks, and more to expand people´s purchasing power in times of prosperity.

This challenges also the conventional wisdom of Chilean economists that reiteratively argue that credit "...is mainly backed by future expected incomes, allowing for consumption smoothing over transitory income or needs-based shocks, being more volatile as requirements and use of debt are more linked to income/need shocks." (Cox/Parrado/Ruiz-Tagle 2006, p. 6).

In any case, the historical interpretation seems to be at stake: are Chilean families acquiring debts to participate in spirals of conspicuous consumption, or rather protecting themselves from the volatility of a liberal market economy. This is a very controversial issue and the complexity of its historical interpretation lies in the fact that the expansion of consumer credit could be considered as both the cause and consequence of the Chilean modernization. For some, Chilean families taking increasing credit is symptomatic of the democratization of finance and consumption, a sign of the increasing opportunities and freedoms brought about by the embracement of neoliberalism. More suspicious observers, however, would question the coexistence of high levels of aggregate demand with persistent inequality. In part, it seems that the success or failure of political and economic institutions in neoliberal Chile lie in the interpretation of the causes and consequences of indebtedness. But why is consumer debt so controversial?

The ambivalent character of these discussions relates to a seemingly universal phenomenon noted by anthropologists: that credit/debt relations have an ubiquitous and morally contested character (Guérin/Morvant-Roux/Villarreal 2014; Graeber 2011). As astonishing ethnographical evidence shows, informants across different times and places manifest a distinction between *credit* and *debt* according to which the former refers to forms of power and status, while the latter is associated with imprisonment and weakness (Peebles 2010). Mauss (2005) himself was among the first to analyze the paradoxical nature of credit/debt relations, showing that debts not only contribute to the institutionalization of hierarchies, but are also the key to group solidarity. Following Mauss´ suggestion, scholars have addressed the practical effects of such distinctions, what has been called the “pragmatics of credit/debt relations” (Gregory 2012), noticing that relations between lenders and borrowers transcend their economic and financial character and “…entail emotions and feelings such as dignity, prestige and respectability, and also shame, humiliation, anxiety, anger, revenge or even friendship, gratitude and love” (Guérin/Morvant-Roux/Villarreal 2014, p. 296).

Under this perspective, historical interpretations remain open to the pragmatics of credit/debt relations: for some the exaltation of the “credit” side of the distinction, stemming from the latin *credere* (to believe), is a recognition of the trustiness of consumers and their entrepreneurial potential. For others, however, people do not take credit but “get indebted” to meet “needs” that the media have established as a standard of living. According to this critical view, the expansion of consumer debts could be considered as reproducing an “ideology” in the strict Marxist sense (Marx/Engels 2014): it provides a solution in conscience (consumption equality) to an unsolved contradiction in practice (high and persisting income inequality). Viewed this way, the rise of consumer credit would not resemble a step towards development, but the incapacity of a society to distribute the benefits of the so called modernization. What version is closer to reality? How to theorize and explore the relation between debt and consumption in contemporary capitalist societies?

1.2. Researching Consumer Lending

Debates about the causes and consequences of the financialization of consumption in Chile tend to lose sight of the "big picture". Chile is certainly not the only developing country that underwent financialization processes. The proliferation and expansion of markets for consumer credit has been one of the driving forces of capitalist accumulation in the last decades, showing an explosive growth in both developed and developing countries (Guseva/Rona-Tas 2001; Guseva 2005; Rona-Tas 2009; Trumbull 2010; Rhyne 2009). Against this background, scholars from several disciplines addressed the increasing indebtedness of households and the expansion of consumer lending (although the majority focuses on Anglo-American economies as the landmark of the expansion of financial markets at large). Currently, it is possible to discern among different multidisciplinary research agendas that attempt to make sense of this phenomenon.

Market sociology has focused on the organizational foundations of consumer lending, improving our understanding of the structure, scope and stability of these markets from a supply side perspective (Guseva/Rona-Tas 2001; Rona-Tas 2009; Róna-Tas/Hiß 2010; Marron 2006; Marron 2009; Poon 2007). The main concern of this research is the organizational conditions that make the emergence and expansion of credit markets possible under different institutional settings.

During the last decade, the social sciences witnessed an important development in the studies of finance from historical and macro perspectives towards the thorough description of processes, techniques and settings through which financialization is assembled and enacted on a daily life basis. Up to now, the research program under the paradigm of the *Social Studies of Finance* has been successful in opening the so called "black box" of consumer lending and we have a better picture of the imbrication of households and consumers with consumer credit at the market place (Langley 2013; Langley 2008), the role of "corporality" and affective processes in post-sale relations (Deville 2013) and the marketization of finance (Ossandón 2013; Marron 2013). But how and why do people increasingly consume credit?

Anthropologists have arguably provided the most comprehensive and detailed accounts of the consumption of credit by informing and documenting financial practices across diverse social contexts (Gregory 2012; Peebles 2010). Recently, an increasing number of scholars enriched our understanding of the social meanings and uses of finance among those previously excluded from financial markets in

Argentina (Wilkis 2013; Wilkis 2014), Mexico (Villareal 2014; Villareal 2008; Angulo 2014; Zanotelli 2014; Guzmán 2014), India (Guérin et al. 2014), Chile (Han 2012; Barros 2011) and Morocco (Morvant-Roux et al. 2014). These works debunked the belief that poor people lack rational competences to deal with modern finances, demonstrating that supposedly illiterate consumers "juggling" with money actually make complex calculations, compare and translate values among currencies, and exchange different types of debts and obligations.

In Chile, there has been an increasing concern about the expansion of consumer lending. Ossandón (2011) has put forward one of the most active research agendas to unveil what until now was considered the "black box" of credits. His own work went in the direction of Social Studies of Science, studying the credit card industry with a special emphasis on the risk management techniques and financial innovations that underlie the extension of credit to middle and low income populations (Ossandón 2013); the emergence of socio-technical controversies inside the financial industry (Ossandón/González 2010b); and the financial ecologies that emerge from the utilization of these devices (Ossandón et al. 2011). This paved the way for a series of research projects carried out in different directions, which this dissertation contributes.

Other research studies rather focus on consumers with a special emphasis on low-income households. These qualitative studies share Zelizer´s concern about the representations and social meanings of money. In this vein, Barros (2011) described the calculative frames and practices of sub-prime credit card holders in Chile, showing moral and affective foundations of the uses of "credit money". Han (2012) provides a similar ethnographical account and shows the lateral uses of credit by women struggling against the indeterminacy of family´s care relations in contexts of economic constraints and domestic violence.

van Bavel/Sell-Trujillo (2003), on the other hand, studied the representations and underlying rationales behind credit utilization among low and middle-high income debtors. They showed that while low-income consumers use credit as a means of social and personal realization that aims at demarcating boundaries against the stigma of poverty, middle-high income debtors mobilize rational arguments to justify their debts. Finally, an exception to the qualitative focus on low-income consumers is the work of Marambio (2011), which looks into the different profiles of middle class debtors in a quantitative fashion, showing the mixed character of the financialization of households.

These studies contributed to empirically de-economizing the indebtedness of Chilean families, largely considered as a matter of macro-economic stability rather than a social phenomenon (Montero 2010; BC 2010; Álvarez/Opazo 2013; Ruiz-Tagle/García/Miranda 2013). This is very important in the context where the expansion of consumer credit has been systematically considered by local scholars as one of the most characteristic and striking features of the Chilean capitalism (Moulian 2002; Tironi 1999;

PNUD 2002), but little research has been actually conducted to understand how the mechanisms underlying these transformations operate. This dissertation aims to address this oversight

In particular, this project seeks to contribute to the studies of credit in Chile by tackling two main gaps: First, as a matter of empirical focus, characterizing the financialization of the heterogeneous Chilean middle class in a qualitative fashion is still a pending task. This is important especially when we take into consideration the fact that the rising middle-class is the driving force of the expansion of consumer lending in Chile.

But the most important gap relates to the analytical framework through which reality is approached. In particular, I maintain that in demarcating themselves from institutional-macro approaches and showing the material and technological foundations of markets for consumer credit, most studies on credit in Chile remain disconnected from their institutional and political foundations. In broad terms, this disconnection has to do with the fact that the relation between consumption, politics and debt remains under-theorized in the different perspectives utilized, especially within the field of economic sociology. Moreover, the emphasis on the moral underpinnings of debts and financial literacy-problems led scholars to neglect the crucial issue of how people actually consume with credit, and how this relates to structural transformations and political institutions. This omission obscures the fact that unlike micro-credits, which are promoted by governments and international agencies as concrete solutions to poverty and economic underdevelopment, consumer credit is indirectly promoted as a social entitlement that serves as a substitute for social spending in times of fiscal austerity (Rajan 2010; Krippner 2011; Streeck 2014). This makes the political dimension of financialization a nuanced affair, which requires further research on the relation between meaningful financial practices and broader institutional contexts.

Finally, it is important to emphasize that with an exclusive focus on Anglo-American economies, current theories on political economy provide few analytical tools to understand how debts and consumption intersect in contexts not characterized by wage stagnation. Driven by these concerns, this dissertation seeks to investigate the financialization of consumption in Chile by engaging the following research questions.

1.2.1. Research Questions

- Why and how do people in Chile increasingly take credit to finance their consumption in contexts of improvement, and how does this relate to the institutionalization of a liberal economic regime?

This question can be further disaggregated into the following specific questions:

- What are the social mechanisms that connect the institutionalization of neoliberal arrangements and household indebtedness in Chile?

- Where do preferences for financing consumption with credit come from, and how do they relate to people´s life-trajectories?

- What are the financial and consumption practices that inform the utilization of consumer credit as a *policy tool*?

- What are the social consequences of the financialization of consumption?

1.3. Literature Review

How should we address the political and institutional foundations of consumer lending in Chile? In this dissertation I take some distance from mainstream studies of consumer credit in economic sociology and anthropology, and follow political economists in that the financialization of consumption should be understood as a structural and political phenomenon of contemporary capitalism.

Indeed, we have witnessed during the last years an emerging consensus in both political economy and financialization literature, according to which distributional compromises under neoliberal political economies prompt households to acquire consumer debts. Although with different emphasis, such accounts could be encompassed in an overarching narrative that in this dissertation I refer to as the "Privatized Keynesianism" hypothesis, a concept originally coined by Colin Crouch (Crouch 2008).

The starting point of this narrative is the evidence that shows an inverse correlation between the development of the welfare state - measured as social spending- and household debt across developed countries (Prasad 2012b; Kus 2013).[4] In line with this finding, scholars seek to show that consumer credit helps people meet their financial commitments in the context of rising living-costs and stagnant wages, showing a correlation between the financial stress of middle class families and the absence of a safety net left by the retrenchment of the welfare state (Sullivan 2000; Warren 2003).

[4] Kus (2013) for example, explored the "financialization of welfare and distribution" in 20 OECD countries over the period 1995-2007 and their impact on governmental policies towards "social welfare".[4] The results of Kus´ analysis suggest an inverse relation between the existence of consumption opportunities through credit and low-wage imports from China on the one hand, and the social welfare effort of governments, on the other. Prasad (2012a) offers a similar analysis by measuring the effects that the gross public social spending as a percent of the GDP (Soc*x*) has in household debts (measured as the value of assets against the values of debts) in 21 OECD countries for the period 1980-2005. The regressions show that deregulations in the banking sector have effects on household indebtedness in less developed welfare state countries, but not in cases with higher welfare spending. Furthermore, in less developed welfare systems, deregulation could be associated with a higher demand for credit.

This evidence led political economists to reject the explanation of the rising indebtedness of households that rely on the life-cycle hypothesis and the falling interest rates that followed financial deregulations in the 1980s (Montgomerie 2009b; Trumbull 2012a; Trumbull 2014); it also provided strong support against the "overconsumption hypothesis" widely held in the media, according to which both indebtedness and financial failure are consequences of the rise of a hedonist and out of control consumer driven by desires of self-gratification (De Graaf/Wann/Naylor 2005). Rather, for most political economists, debt creation is less driven by an out-of-control consumer and more the consequence of redistributive policies that put the burdens on the shoulders of ordinary consumers (Trumbull 2012b; Prasad/Deng 2009; Logemann 2011). As Weller (2007) puts it "While the desire for instant gratification is probably a small contributing factor, it is far overweighed by the need of families to borrow more amid sluggish income growth and rising prices" (Weller 2007, p.583).

Following this argumentative logic, the "Privatized Keynesianism" hypothesis is rooted in two main ideas: first, that the financialization of households could be seen as the result of concomitant processes and structural transformations. These were driven by the institutionalization of the idea of non-inflationary growth as an attempt to address the crisis of the 1970s (Krippner 2011). And second, that the rise of both secured and unsecured debts should be understood in the context of wage stagnation and labor flexibility, characteristic of several advanced economies.

In this dissertation, I use the "Privatized Keynesianism" hypothesis as the primary analytical framework to understand the financialization of consumption in Chile. But I also engage with it by problematizing some of its main assumptions and gaps. This requires a more detailed account of what "Privatized Keynesianism" is.

1.3.1. What is Privatized Keynesianism and how does it work

At the historical and institutional level, "Privatized Keynesianism" is a particular articulation of distributive conflicts that result from the overall accumulation crisis and contradictions of capitalist democracies in the second half of the twentieth century. This articulation of the state, markets and households has three main pillars: the role played by a) financial innovations, b) the retrenchment of the welfare state, and c) political actors promoting credit access as a policy tool.

Privatized Keynesianism and the Distributional Conflicts of Democratic Capitalism

Paying special attention to the role of financial deregulations, the increasing reliance of the American economy on foreign capital flows, and a shift in the monetary policy initiated in the Volcker era, scholars have argued that financialization was the unintended answer of policymakers to a set of political, economic and social dilemmas that they dealt with in the 1970s (Rajan 2010; Crouch 2008; Streeck 2011; Montgomerie 2006b; Krippner 2011; Krippner 2005).

For Streeck (2014), rising household indebtedness could be seen as the manifestation of an endemic conflict that came to institutionalize instability in the post-war era, where capitalism and electoral democracy became interdependent phenomena within the Fordist model of mass production. The conflict results from the contradictory logics of capitalist markets and democratic politics that governments have to deal with in democratic contexts. While the former operates under the logic of marginal productivity, the latter works under the logic of social rights, creating pressures to bring resources from the future in order to resolve the struggles over the distribution of scarce resources in the present. Under this logic, debt creation in different spheres stands as a temporary solution to these distributive conflicts in the post Keynesian era (Streeck 2014; Streeck 2011).

Keynesianism was indeed an answer to distributive problems in advanced economies and guided economic policies during the thirty years after the Second World War.[5] Built on a massive production system established by Fordism and Taylorism, the state protected ordinary workers from the fluctuations of the markets by creating debts and stimulating the economy in recession times (Crouch 2009). Restoring the stability in workers´ lives and their consumption confidence, unemployment was reduced to very low levels, wages increased, and the demand for goods re-activated economic growth, ensuring the necessary confidence for future investments. In this sense, Keynesianism represented a temporary coincidence between the industrial working class and the general interest of the political and economic system in the global northwest (Crouch 2011).

Endemic inflation was the result of these particular arrangements, which was tamed in the early 1980s with the radical policies of Volcker and Thatcher. These policies led to an unprecedented rise in interest rates, the dismantling of trade unions and high unemployment rates that followed restrictive monetary policies (Streeck 2011). The decline of inflation in democratic capitalist economies went hand in hand with de-unionization of workers, while unemployment provoked the need for social assistance. In such a context, inflation was no longer an available tool to close the gap between markets´ demands to

[5] Crouch (2008; 2009; 2010) recognizes three different solutions to this problem in advanced economies, which eventually mutated into the most common form of Keynesianism. On the one hand, for the new western Federal Republic of Germany, as well as Japan, the solution was the separation of labour and consumption into different groups. While the national workforce would enjoy security, exportation national capital would depend on the consumption of workers in other countries. On the other hand, countries that were not liberated as Germany, such as France and, into a lesser extent, Italy, the state provided security for employment in key industries and agriculture, and workers were included in the "national champion sectors". Finally, the model of Scandinavian countries, the UK, Austria and the USA, which is more accurately above described, represented the Keynesian demand management

equate incomes to productivity and social demands. This created the need to introduce new tools to ensure social peace (Streeck 2011).

The answer to this conflict thus came from two financial innovations that took place within the paradigm of the shareholder model. These innovations came to save the neo-liberal model from its internal instability: the growth of credit markets for poor and middle-income people, and derivatives and future markets (Crouch 2010). Altogether, these innovations became the basic elements of the unacknowledged policy regime of privatized Keynesianism.

Deregulating financial markets, the public policies of Anglo-American economies grounded the extension of unsecured housing and consumer debt to moderate-income groups. Governments relaxed the terms of housing finance and took measures to keep the home prices rising, so banks were interested in expanding credit in assets of growing value. The expansion of credit allowed low and middle-income households to spend money that they did not have by purchasing consumer goods at high interest rates (Crouch 2010). Thus, unsecured debt fueled consumption, decoupling capitalist performance from the problem of stagnant wages and the retrenchment of the welfare state. Finance became the driving force of economic growth and “Instead of governments taking on debt to stimulate the economy, individuals did so.” (Crouch 2009, p. 390).

Financial Innovations and the Retail Banking Revolution

As demonstrated, if financial markets came to solve redistributive conflicts by bringing future resources to the present, it is because the conditions for lending huge amounts of money were achieved through a real revolution of retail banking (Erturk et al. 2008). But, where does all the lent money come from?

Taking up this issue, many scholars have argued that the transformation of the American banking sectors is one of the main causes of the consumer credit boom of the 1980s (Langley 2008; Lapavitsas 2011; Geisst 2009). The main feature of this process is that corporations developed skills to raise capital without relying on banks through the retention of own profits. The result has been a restructuration of banks from the seventies onwards, which shifted towards households and individuals as sources of profits. Workers´ revenues became the new focus of banks by borrowing and expanding financial assets such as insurance and pensions. Individual consumption has been privatized and mediated by financial institutions that extract value directly from wages, instead of surplus production (Lapavitsas 2011).[6]

[6] For Lapavitsas (2011) this relation between banks and workers is qualitatively distinct from the relation of banks and industrial capital, since workers acquire use values and have much less power than other institutions, fostering what has been called “financial expropriation”.

The expansion of consumer lending that followed this transformation of retail banking practices from the 1980s onwards was associated with different innovations, such as asset-backed securities and credit default swaps. In fact, revolving credit itself was a complex and not necessarily profitable business at the beginning when the first credit cards were issued in the 1950s, but it became an attractive business with the introduction of new information technologies that lowered the administration costs (Trumbull 2014; Geisst 2009). Following the informational revolution in the 1970s, *securitization* revolutionized the credit card market by transforming lenders into agents creating debts and packaging them to clear-off the books (Geisst 2009).

Asset-backed securitization, "*the practice of bundling or pooling together a stream of future repayments arising from everyday borrowing*…" (Langley 2008, 136), was created in the 1970s within mortgage debt markets, and moved into an increasingly range of repayment obligations, such as car loans, student loans, and credit card receivables in the 1980s. In the case of the latter, the value of credit card markets grew explosively from 1995 to 2003 from $153.1 billion to $401.9, which is replicable in similar proportions to the market for cars.[7].

A crucial factor was the movement of assets off-balance sheet that enabled lenders to produce different kinds of new assets holding a relative small capital base, expanding the "customer funding gap", i.e. the amount of customer lending not financed through customer deposits (Langley 2008). Furthermore, bond rating processes also led to the creation of "structure finance", where ABS take the form of collateralized bond obligations (CBOs), or collateralized debt obligations (CDOs), structured through different levels of risk, depending on their default potential. According to Langley (2008), these instruments in the US reached an important share up to 14.7% of all outstanding ABS in 2006. Finally, the management of assets has recently stimulated derivative practices, were "…it is not the assets that are commodified and liquidified, but the default risks calculated for those assets…" (Langley 2008). This means that the expansion and growing profitability of credit card markets could be explained by the advent of asset-backed securities, which are used by credit issuers as a tool for the recapitalization of loan pools, rather than for dispersing risk.[8]

[7] Langley takes the data according to the Securities Industry and Financial Markets Association. In a similar vein, Montgomerie (2006a) shows the increasing importance of credit creation within consumer credit markets in the US -which arose from US $200 billion in 1995 to US $600 billion in 2002- where many of the largest consumer credit issuers depend on securitization to fund up to 70% of their businesses (Montgomerie 2009)

[8] Credit supply, therefore, has increased and transformed lending patterns in such a way, that credit issuers became dependent on persistent indebtedness for profitability. As a consequence, the business model itself encourages further innovations in order to increase the span of debtor´s balances or retain customers, such as loyalty programs or minimum payment policies, which made possible for a consumer to apply for several credit cards, inaugurating the practice of "shuffling" among different credit card balances.

Furthermore, once the portfolio characteristics became more important than their quality, the conditions under which banks lent money became more relaxed, extending credit to riskier borrowers such as students, housewives and low-income workers. This led to aggressive marketing strategies that aim at capturing new customers and retaining old ones (Manning 2001). The "preapproved" card offer was regularly delivered to millions of households during the nineties and "easy credit" policies were at the basis of the "democratization of finance" (Geisst 2009).

The Welfare State Trade-Off: Is Privatized Keynesianism an Unacknowledged Social Policy?

The third pillar of the "Privatized Keynesianism" hypothesis is the role of the state in promoting access to finance. Contrary to the belief that credit expansion developed as an unintended consequence of the restructuration processes that took place from the 1970s onwards, some scholars have shown that the state itself played an active role in promoting credit access, providing incentives to consume and legitimating indebtedness in general. These narratives do not contradict the Privatized Keynesianism hypothesis, but they certainly complement it by providing a more specific account of how politics and national paths of development have directly shaped the behavior of consumers. In other words, if the welfare/debt trade-off exists, it is in part because of the active intervention of the state in promoting the financialization of the population through different channels.

To a great extent, the political support to deregulate these markets is anchored in broader concerns about the legitimacy of indebtedness. Thus for example, Trumbull (2014) shows that French politicians supported strong regulations to interest rates because credit itself was conceived as a potential for social exclusion, an economic contract whose benefits for society were not clear. This made the development of revolving credit a hard business and the expansion of consumer credit was accompanied by strong movements towards regulations.[9]

Along these lines, several scholars pointed out the role of political legitimacy in explaining the expansion of credit access to American families (Trumbull 2012a; Trumbull 2014; Trumbull 2010; Logeman 2012; Calder 1999; Geisst 2009). Unlike French politicians, for instance, North Americans have historically understood credit access as a solution to a wide range of problems such as overproduction, consumption inequality and economic growth. Following a different conception of credit, they conceived credit as an economic tool and a social policy, a mechanism of social inclusion, gaining the political

[9] Such as the regulation of advertisement of free interest credit of retailers, the resistance against a "white list" from banks (only a black list was created), and the regulation of bankruptcy (Neiertz law).

legitimacy required to be deregulated (Trumbull 2014). According to Prasad (2013), for example, this has historical roots in the problem of over-production during the first half of the twentieth century, which was seen in America as a problem of purchasing power that could be solved by issuing consumer credits to the population.

Although the extension of credit was an important feature of the nineteenth century America, it was under the Roosevelt era that mass consumption policies and credit extension were embraced through a set of progressive consumer policies (Logeman 2012). Reinforced by Keynesian arrangements, the promotion of credit access in several areas such as housing, automobile industry and durable goods was a means to help the American middle class to have access to the standard package of the American dream and foster economic growth through mass purchasing power from the 1940s to the 1960s (Calder 1999). This is the time of the creation of the Federal Housing Administration and the Federal National Mortgage Association after the Great Depression that supported a sort of "mortgage Keynesianism".

Thus, credit in the US was understood as the "great democratizer", actively promoted by the government and tenaciously defended by banks, commercial associations and economists against any form of regulation. Credit access institutionalized the preference for private over public consumption in a set of goods and services such as transportation, education and housing (Logemann 2011). However, by the end of the 1960s the democratization of credit access was far from universal and different government regulations and social movements´ pressures aimed at institutionalizing the recognition of "credit subjects" to all American citizens, regardless of their gender, race and residence. The bankruptcy reform of 1978 thus complemented this notion of democratic access by providing the possibility of a "fresh start" to American debtors. The post 1980s growth of household indebtedness was fostered by the revolution in the credit industry above mentioned, but the political conditions to materialize credit access as a universal tool were already there (Logemann 2011).

Explaining the demand for Consumer Credit

The "Privatized Keynesianism" hypothesis puts a major emphasis on the interplay between distributive conflicts, financial markets and the state. But what is exactly driving people to acquire debts in the context of Privatized Keynesianism? The answer to this question in the field of political economy is less obvious, and rests on a main assumption that could be summarized as follows: standards of living reached in the post-war period have crystalized as a sort of collective expectations that make peoples´ lifestyles inelastic to changing economic conditions, especially labor market volatilities and a weak safety net. People accordingly acquire debt in order to maintain their lifestyles, to keep pace with an increasingly demanding economy and to smooth consumption in a changing and hostile environment.

This line of reasoning is made explicit by Montgomerie (2009b), who argues that consumer debt provides a means for maintaining a historically constructed life style in Anglo-American societies in the face of wage stagnation. From a top-down perspective, says Montgomerie, structural phenomena grounded the emergence of household unsecured debt, such as the decimation of blue collar workers and their replacement for low-paid service work; the stagnation of real income growth; the replacement of full employment policies towards inflation control; fiscal restraints in provisions for social care; and new demands of the knowledge economy for continued training and education. Additionally, households were affected by reconfiguration in businesses practices, such as the relocation of corporations in lower cost jurisdictions, the constraint of non-wage labor benefits, and labor flexibility.

On the other hand, from the perspective of households, Montgomerie (2009b) sees borrowing as a response to these trends which could be confirmed with different evidence, such as the importance of debt as a contributor for financing studies, a tool for diminishing the gap between medical coverage and the rising costs of medical services, or the fact that the vast majority of low and middle income households use debt as a safety net (Montgomerie 2009; 2011). These tendencies are characterized by what Juliet Schor calls “defensive consumption”, which refers to how households acquire debt to maintain the consumption standards of the previous decades, rather than expanding their consumption and levels of socioeconomic prosperity. The question that follows from this, is then, if “defensive consumption” is a sufficient condition to explain the rise of consumer debts under neoliberal arrangements.

1.4. Discussion

There are two simple ways of asking whether the Privatized Keynesianism hypothesis offers a satisfactory explanation to the question of why people acquire so much consumer debts. The methodological question is if such narratives fit the basic features of the Chilean case or developing countries in general. The second, if such macro-perspectives account for the behavior of people in real life at all; in other words, if they help us fully address the issue of why people take credit in a systematic fashion. I see important gaps in both cases, which I seek to tackle in the following chapters.

1.4.1. On the Methodological Obstacle

Is it possible to extrapolate this explanation to the Chilean case? To some extent, Chile is similar to the paradigmatic case of the US, which has been the main subject of scholars studying the expansion of consumer credit: the emergence and expansion of these markets took place in parallel with deep economic liberalization, a progressive retrenchment of the welfare state, commodification of health and education, and deregulation of markets for credit and labor, among others (Munoz 2007; Taylor 2006). In this context, although household debt is still less significant than in the US in terms of the share of the GDP, one can argue that the unrestricted access to credit in Chile has worked as an unacknowledged policy (privatized Keynesianism) that smoothed household consumption and the precarious situation of workers.

Nevertheless, two reasons make the case of Chile distinctive for exploring the research questions addressed here. First, I already mentioned that the expansion of credit in Chile has been mainly led by department stores. This expansion has been based on a particular articulation between financial services and commerce, which has served as a successful business model for the whole region. As it will be shown in Chapter 5, financial innovations carried out by local department stores were based in the implementation of risk classification techniques from abroad, but they were implemented in a very different way. More importantly, however, is that department store credit cards are mainly attached to within-store purchases and particular goods, so these consumer credits can barely help people to smooth their consumption in the face of income shocks. This means that these credit cards allow families to expand their incomes and consumption more than anything else, and that if debt-led consumption is somehow "defensive", is should work in a rather different way than maintaining lifestyles or as a safety net.

Secondly, the consolidation of consumer credit in Chile was not grounded on the cultural substratum of financing the "American Dream", nor in the deterioration of the middle-class that followed the post-Keynesian period in many capitalist democracies. It was rather consolidated in the context of a significant improvement of the standards of living of large segments of the population. In fact, the increasing accumulation of household debt in Chile during the nineties was accompanied by sustained economic growth (Arellano 2011), fluid social mobility (Torche 2005), rising real wages throughout all income brackets, decrease in the population under the poverty line (from 38,6% in 1990 to 14,4% in 2011), and the consolidation and integration of the middle class through consumption (Tironi 1999).[10]In this context, it will be argued that inequality is the key element that articulates the relationship between welfare-state retrenchment, economic improvement and debt.

These peculiar features of the Chilean case do not invalidate the "privatized Keynesianism" hypothesis, rather they push us to think of different ways in which distributive conflicts and debts relate to each other in contexts of economic improvement. If Privatized Keynesianism explains the rise of household debts in Chile, it might operate through more refined and subtle mechanisms. If Chile is a story of "privatized Keynesianism" or not, however, will be the concern of chapter 3.

[10] Between 1990 and 1998 Chile improved its Human Development Index from 0,803 to 0,847, the second biggest improvement in the world after the UK for the same period. See Human Development Report in Chile 1998.

1.4.2. *On the Epistemological Obstacle and the need of a Micro-foundation*

On a different level, I see some epistemological obstacles that prevent these macro-accounts from reaching high explanatory power regarding the increasing indebtedness of households. In particular, existing macro explanations encompassed under the “Privatized Keynesianism” hypothesis cannot fully account for the behavior of consumers and households on one main ground: insofar the demand for credit is not studied in itself, macro-accounts have to rely on strong assumptions at the level of actors that leave many open questions. Since macro-accounts rather rely on very weak understanding of consumption dynamics, the social dynamics of debts are obviated and important features of the financialization of consumption are overshadowed. This means that the *financialization of consumption* is better understood with micro-foundations.[11]

The lack of *explanatory autonomy* of macro accounts stems in the first place from the dismissal of the demand for consumer credit as a matter to be directly explained. People´s expectations, meaningful actions, desires and collective representations have played a marginal role in the literature reviewed or have to be somehow assumed.

This is problematic. As previously sketched, accounts from the field of political economy share a critique to the economic explanation of the rising indebtedness of households that rely on the life-cycle hypothesis and on the falling interest rates that followed the financial regulations of the 1980s (Montgomerie 2009a; Montgomerie 2006a). But they also stand as an alternative explanation to the “overconsumption hypothesis” that has been widely held by critics both within and outside academic circles. This narrative basically states that both rising indebtedness and financial failure are consequences of the rise of a hedonist and out of control consumer driven by never ending desires of self-gratification (De Graaf/Wann/Naylor 2005; Warren 2003). These dynamics triggered by aggressive advertisement campaigns and product differentiation within the context of over-saturated markets, have created escalating processes of comparison and competition over consumption-signaled status that fuels the demand for goods (Schor 1999b).[12]

This interpretation, although not completely misguided, has been rejected under the prism of the strong connection between welfare state retrenchment and rising indebtedness. The over-consumption

[11] I draw on philosophy of science and provide parameters to assess when a micro-foundation is required in order to provide a good explanation. See A.

[12] The over-consumption hypothesis is implicitly based on the classical Veblenian notion of *conspicuous consumption*, according to which consumption consists of “…the possession and display of goods and means to demonstrate superiority in a system of social status.” (Warde 2011: 10). This type of consumption is referred to as positional in the sense that people symbolize lifestyles (and their position in the social structure) along with their networks and surroundings (Beckert 2011).

hypothesis is rejected by arguing that the shares of income that families spend to meet "basic needs" (housing and education) are far more important than other forms of discretionary and "conspicuous consumption" that reflect aspirational and status-seeking ends (Prasad 2012a; Warren 2003). The problem with indebtedness, then, is that debt-oriented consumption is necessarily "defensive consumption"; it helps people meet some "standard needs" and maintain their lifestyles in the context of increasing health, housing and educational costs on the one hand, and stagnant wages, on the other (Weller 2007). But, what are exactly these standards of living?

To some extent, political economists implicitly follow the substantive distinction between *desires* and *necessities* that authors such as Marcuse (1991) or Galbraith (1999) made when critically assessing the nature of the "consumer society". But these distinctions are problematic when we consider that consumption levels have been steadily rising and lifestyles themselves are changing all the time. Drawing a dividing line between "need" and "status-oriented" consumption is tricky because, as Schor (1999b) has shown, what is considered a "need" or "comfort" changes across societies and time according to the socially constructed standards of living. Is it now for a middle class family a luxury to have as many computers as family members, or is it rather necessary to catch-up with the competencies that professional careers demand in the information era? Because "consumption standards" constantly change, consumption levels and the dynamics underlying the expansion of credit cannot be understood as referring to absolute and static conceptions of wants, necessities, wellbeing or status.[13] Unraveling the relation between the expansion of consumption and debts will be even more puzzling in cases where families have experienced upward mobility and a rise in wages.

Furthermore, it could be argued that the over-consumption hypothesis might overstate the role of "conspicuous consumption", but the truth is that in the context of affluent societies and saturated markets, consumption has been constantly expanding through market innovations and aggressive marketing campaigns (Galbraith 1999; Streeck 2012). In this sense, the media have played a key role in portraying upscaling lifestyles that affect the aspirations of consumers (Schor 1999a). According to this view point, key elements to take into consideration are the role of income inequality and transformations in the social structure. This is evident in the proliferation of positional and even "luxury goods" at the top of income distribution, but it also holds true for less salient goods. The expansion of certain goods such smartphones or computers actually implies that people consume more, but not all this consumption is necessarily oriented towards signaling status. Indeed, "ordinary" forms of consumption might exert a less visible pressure on consumers to catch up with the standard package or customary levels of consumption. What is the relationship between standards of living, commodification and debts? This is paradoxically the

[13] This is especially problematic when middle-class has reached a certain threshold of consumption standards far from material deprivations.

cornerstone of the “Privatized Keynesianism” hypothesis, but at the same time it is its most obscure and less explored dimension.

The picture that emerges from what is mentioned above is that the rising indebtedness of households cannot be subsumed under a dominant logic, whether “conspicuous” or “defensive” consumption, basically because multiple dynamics are at work, and its causes and consequences are unevenly distributed throughout the social structure. This lack of *explanatory autonomy* stems ultimately from the fact that macro-accounts present a society devoid of culture, an economy devoid of society.

Two Conceptual Movements

How to overcome the aforementioned obstacles? This dissertation explores two conceptual moves that serve as the analytical strategy to overcome the main flaws of the “Privatized Keynesianism” hypothesis discussed above.

From co-variation to mechanisms: firstly, if institutional arrangements and distributional conflicts create the conditions or directly prompt the indebtedness of households in a systematic fashion, it is necessary to provide intermediary processes that account for such causal connection. In other words, the Privatized Keynesianism hypothesis requires a notion of concrete *social mechanisms* that intermediate the relation between institutional arrangements and the concrete practices of households.

From horizontal to vertical explanations: secondly, since these explanations at the macro level remain in many cases riddled with assumptions at the micro-level, a political economy of consumer lending requires a *micro-foundation* that opens up the “black box” of households and consumption dynamics. In looking for a *micro-foundation* at the level of households, I consider changes in the social structure, lifestyles, habits, emulative behavior and consumption dynamics as crucial elements shaping indebtedness. I suggest that these dimensions can be illuminated and informed by sociological theories of consumption. Ultimately, I see this interdisciplinary approach as necessary because there are no empirical accounts of how exactly consumer credit serves as a *policy tool* that makes distributive conflicts less salient.

1.5. Overview of the Dissertation

This dissertation seeks to integrate both the macro and micro foundations of consumer lending. With this goal in mind, Chapter 2 prepares the analytical and conceptual grounds of this integration by overviewing sociological and anthropological theories of consumption. More specifically, echoing the epistemological obstacles of the Privatized Keynesianism hypothesis, it explores how to illuminate the relation between standards of living, consumption and debts. The remainder of the dissertation is divided into three main parts.

Part I provides the historical background in which Privatized Keynesianism developed in Chile. The main argument I put forward is that unlike the case of developed economies, financialization in Chile did not work as an indirect policy that helped democratic governments keep pace with already established standards of living, but it was rather used as an explicit *policy tool* to carry out and make a modernization project viable. Building the path to develop this argument, chapter 3 traces the origins of the financialization of consumption to the structural transformations brought about between 1970s and 1980s, which institutionalized the main pillars of Chile´s Privatized Keynesianism: growth, inequality and the privatization of risks. Chapter 4 argues then that the financialization of Chilean households is the corollary of the creation of new markets in the spheres of education, housing and consumption, serving as the means for materializing a modernization project. In this sense, the chapter sketches the *politics* and *counter-politics of debt* carried by the state, corporations and debtors alike to put forward or contest the financialization of households. Chapter 5 deepens into the financialization of consumption and develops the idea that lenders in Chile benefited from the lack of supervision and progressively financialized Chilean consumers to sell their own goods in a context of high inequalities and low wages. In this context, the chapter shows that if consumer credit served as a policy tool, it was by expanding people´s purchasing power -rather than helping them "smooth their consumption"- which, in turn, served to make income inequality less visible. Finally, chapter 6 ends up providing a quantitative characterization of the debts of Chilean households, as well as assessing the determinants of debt levels.

Part II tackles the issue of how credit actually works as a social policy in a context of growth and inequality. The key to understanding this, I argue, is to look into how the financialization of consumptions entangles with the socially constructed "standards of living", for which a working hypothesis is developed: growth and inequality induce "status anxiety" by creating a gap between raising aspirations and incomes. "Status anxiety" –defined as a major concern about rank, achievement and the definition of one´s identity- in turn pushes consumers into bringing resources from the future in order to a) participate in the benefits of growth, and b) to cope with the fears of "falling behind" and "being left aside".

Following this idea, I start exploring the first source of "status anxiety", the will to participate in the benefits of growth. In this spirit, I show in chapter 7 that the state played a crucial role in ratcheting up their consumption standards of poorer consumers by targeting social policies. Expanding homeownership and better life-conditions mainly boosted these new aspirations, but they were not met by better opportunities in labor markets and better incomes. In such scenario, consumer credit allowed poorer consumers to integrate themselves into the benefits of growth without changing the underlying distribution of income. In the case of the middle-class that experienced a rise of labor-income, I sketch in chapter 8 different mechanisms that create a gap between rising incomes and aspirations in contexts of inequality, inducing "status anxiety" among better-off consumers that use credit as a means for expanding their purchasing power. In this line of reasoning, Chapter 9 provides qualitative evidence to support the idea that middle class families in Chile use and mix different types of consumer debts in order to cope with "status anxiety" by performing their class identities (the *imaginary middle class*) in contexts of changing social boundaries. In particular, I show that middle-income consumers materialize these aspirations in the proximate environment of the household use credits to manage personal relations, decorate and improve their homes, as well as create their desired lifestyles.

Finally, part III of the dissertation pays attention to the second source of "status anxiety", which is the fear of "falling behind" and "being left aside", assessing the role played by commodification of social services in fostering the financialization of consumption. Chapter 10 starts this task by outlining the insecurities of Chilean families, which stem from the institutionalization of meritocracy and heterogeneous social trajectories. It then moves on to tackle the question of why people get so indebted even if they feel very insecure regarding their status, for which I assess the relation between coping strategies, savings and debts. Chapter 11 follows up showing how the commodification of education and the "fear of falling behind" affect the financialization of consumption by creating "arms race" dynamics. These put an important burden on the shoulders of middle-class families, which although are willing to spend higher shares of their income on education, the returns of their investments are constantly devaluated in labor markets. This in turn generates a "budget gap" that leaves families with no other option but acquiring those goods they feel entitled to have with the help of consumer credit.

In chapter 12 I further explore the "fear of being left aside" induced by the dualization of the health system and the structural failure of the private pension system. I show that while an unequal access to health services becomes a heavy burden that creates "budget gaps", the lean pensions of retired workers prompt their indebtedness by generating a huge drop in income. In this way, I depict the financialization of this group in hands of emerging lenders that consolidate in the market for consumer credit, the so-called "Cajas". Finally, chapter 13 ends up addressing how debts themselves become a source of risk and anxiety in Chile´s Privatized Keynesianism, sketching dangerous practices that lead Chilean families to get over-indebted in the attempt of materializing their aspirations.

Chapter 2 Analytical Framework and Methods

The attempt for developing a political economy of consumer credit with strong micro-foundations entails at least two conceptual moves: explaining through *social mechanisms* and bringing in sociological theories of consumption. These two conceptual strategies should be differentiated. In this literature review, however, I will more specifically deal with the sociology and –to a lesser extent- anthropology of consumption to shed light into the connection between structural transformation, changing consumption patterns and increasing household indebtedness.

2.1 Bringing Consumption Back In

Bringing consumption back into the study of consumer lending is a difficult task. Most consumption studies remain fragmented and several dimensions of consumption remain as sub-fields of specialists in topics such as gender, class and family (Zelizer 2005a). As Gabriel/Lang (2006) put it, there has been such a proliferation of coherent discourses addressing consumption, that the concept of the "consumer" itself is in danger of collapsing into a "meaningless cliché". Echoing these warnings, I outline some perspectives that will be put to work throughout the next chapters in order to illuminate the three following issues:

1) Dynamics of cultural differentiation are crucial to understand consumption and socially constructed standards of living underlying the expansion of consumer credit.
2) The reproductions of lifestyles through ordinary consumption prove crucially important to understand people´s increasing indebtedness.
3) Credit facilitates lifestyle building through consumption and different utilization of money.

2.1.1 Social Differentiation and Consumption Dynamics

Why do people consume, expand their consumption, and why do they even take debts to do so? Mainstream economics has largely argued that consumer´s utility stems from individual preferences, independent of the assessments and possessions of others. But psychologists, anthropologists and sociologists have challenged the individualistic foundations of consumerism in many ways. New products and pleasures might be stimulating and goods appealing because they are different from what ocurred before (Shove 2001). But the supposedly direct connection between consumption and individual well-being has been largely discredited (Schor 1999). Psychologists, for instance, have consistently shown that the embracement of "materialistic" values is related to unhappiness and dissatisfaction with one´s life (Tatzel 2014). Quality-of-life and "happiness economics", on the other hand, have studied the relationship between *subjective wellbeing* and rising consumption/income, systematically showing that after certain threshold of material affluence, increasing income and consumption does not have a huge impact on the *subjective wellbeing* in both within and cross national studies (Frank 2005a; Frey/Stutzer 2002; Easterlin 1995; Ahuvia).[14] The reasons for this are strongly debated, but the "positional" character of certain goods -the so-called "Veblen goods"- is among the most recalled arguments (Frank 2005b; Frank 2005a; Frank 2007). The idea is that empirically speaking, total levels of consumption and income are not necessarily the most determinant elements of people´s choices/happiness (or utility), because they have a tendency to assess certain goods and themselves against the situation and possession of others. Goods that are evaluated against this background are called "positional". This is the case, for example, of houses but not of vacations: one might prefer to live in a world where your home is small in total terms but bigger than all others, instead of having a bigger home but smaller than all the rest; but one might not prefer to shorten one´s holidays even in a world where others´ holidays are longer than ours. This happens because, as Easterlin puts it, "…judgments of personal well-being are made by comparing one´s objective status with a subjective living level norm, which is significantly influenced by the average level of living condition as a whole." (Easterlin 1995, p. 36). This provides a key element to understand why spirals of consumption and debts might take place in contexts of economic improvement.

For sociologists and anthropologists this may sound trivial. We have know since Veblen (1994), among others, that consumption levels depend on consumption standards shared among peers and reproduced through the mediation of the so called "reference groups" (Bourdieu 1984; Shove 2001). The evaluations of goods and one´s situation, accordingly, are always contextual and depend on the possessions and situations of others. In this sense, goods are "positional" not only because their valuation depends on others´ possessions, but also because they communicate one´s position in society. This happens because in market economies consumption is not only segmented by socioeconomic strata, but it becomes itself a variable of social segmentation (Catalán 2009). These two "positional" properties of goods might seem similar, but they are analytically different. Certainly both uses of the word "positional" imply that there is a community –significant others- that is taken as a point of reference. But while the concept of "positional" in economics refers to how the preference of individual consumers change in accordance with others´ possessions, for sociology it rather refers to those goods that in a given culture serve people as markers of social distinction. This has nothing to do with the physicality of goods or their "use value", but with the particular meanings ascribed to different goods in given contexts (Beckert 2011).

2.1.2 Positional Consumption and the Communicative Dimension of Goods

As it has been widely recognized since Weber, modern societies are stratified through prestige and

[14] *Subjective wellbeing* is a measure of long-term state of wellbeing based on affective and cognitive judgments that people make about how often they have positive and negative feelings, and how well they are doing in life, respectively.

social honor, which differentiate groups constituted by their consumption and lifestyles. Through this lens, objects in modern societies are not only oriented towards the mere satisfaction of basic needs, but they find value beyond their functionality (use value) and exchange possibilities (exchange value) (Baudrillard 2006). Through their consumption, goods mobilize meanings, tell stories about ourselves and thus communicate, establishing and demarcating social boundaries that define collective and individual identities (Gabriel/Lang 2006; Aguilar 2009).

In sociology, this positional character of consumption has its roots in Veblen´s notion of "conspicuous consumption". In his theory of the Leisure Class, Veblen (1994) asserts that once societies produce surpluses, the accumulation of property becomes a source of status. Under these conditions, hierarchical orders consolidate according to which honor and status stem from ownership. Therefore, inherited wealth confers even more status because it separates a leisure class from those that have to work in order to accumulate wealth. In Veblen´s terms, status comes from the recognition of others through the display of wealth in the form of waste of time (leisure) and goods. Nevertheless, the more societies differentiate socially, it becomes more difficult to use leisure activities to informing about one´s status. In this way, the display and waste of goods –conspicuous consumption- gain salience in the struggles for honor. The key point is that "conspicuous consumption" practices set the standards for all social classes, which strive to emulate the practices of the elite, creating a sort of "trickle down" effect (see also Simmel/Levine (1971) on fashion). As a consequence, since goods become increasingly available for bigger shares of the population, the quest for status tends to be a never ending task and a zero sum game.

Following this line of reasoning, Bourdieu (1984) provided a more subtle and multidirectional account of conspicuous consumption. Following Veblen´s and Weber´s insights, Bourdieu (1984) studied consumption as the manifestation of agents´ strategies to differentiate themselves in the space of social relations. Based in the notion of *habitus*, Bourdieu associates consumption practices with the dispositions of *action*, *perception* and *appreciation* that individuals incorporate throughout their socialization, and that correspond to certain objective material conditions (Bourdieu 2012). While a certain position in the social structure –defined by the total amount of cultural and economic capital- determines the objective horizon of possibilities of agents and their dispositions, "position taking" strategies implicit in the consumption of goods create and reproduce social boundaries (Bourdieu 1997). According to this view, instead of seeing consumption as the sphere for the materialization of individual preferences, consumption is rather understood as an important space of social competition (Sassatelli 2007).

But the mechanisms through which consumption creates and establishes symbolic boundaries are subtler than mere display and emulation. Bourdieu paid special attention to goods that serve as special markers of *distinction*, the so called *cultural goods.* Among these we find paintings or music, whose consumption requires the command of particular schemes of appreciation that are unevenly distributed along with the distribution of cultural capital. These acquired and stratified schemes of perception and appropriation that we call “taste”, represent a particular form of “symbolic power” that serves to the naturalization of social and cultural order by those who posses the biggest stocks of economic and cultural capital (Bourdieu 1984). “Tastes” in this sense are used by different groups as a form of “symbolic capital” in order to legitimate and improve their position in the stratification system. Culture is thus seen as the battleground where class struggle and competition take place (Slater 2005a).

A key point for this dissertation, however, is that dynamics of social distinction are not restricted only to the consumption of *cultural goods.* They also include all forms of consumption, such as sports, clothing and food. As Sassatelli (2007, 95) puts it, “Tastes are in fact structured once and forever on the basis of relative social position, so much so that the choices of consumption are always, even if only unconsciously, expressive of a *positional* and *hierarchical* logic”. Consumption, in this broad sense, is thus organized as a set of coherent classified and classifying practices that we call *lifestyles*. Thus, ultimately the systematic “nature” of lifestyles is seen as the result of this overarching principle behind social practices, the class habitus.[15]

A crucial element in this analysis is the dynamic character of the social order, which is a consequence of the fact that agents strive to improve their social position through the mobilization of available capitals (Bourdieu 1985), as well to maintain their relative position in situations of structural changes. Under this logic, material and symbolic frontiers are constantly reshaped by agents´ attempts to change their positions. In Bourdieu´s terms, “…all the groups involved in the race, whatever rank they occupy, cannot retain their position, their rarity, their rank except by running to keep their distance from those immediately behind them, thus jeopardizing the difference which distinguishes the group immediately in the front...” (Bourdieu 1984, 157).

The dynamism of social space reflects the constant configuration and reconfiguration of lifestyles in the context of markets for mass consumption. These make available a whole range of goods for bigger segments of the population and thus devaluate their “sign value” as markers of social distinctions. This means that the cultural dynamics of social reproduction rely to a great extent on the structural changes in a society, which not only affect the availability of goods but also the distribution of the schemes of appreciation, cultural capital itself.[16] This shows the paradox of social order, where the reproduction of social differences, distinctions and hierarchies is only possible through constant change and reconfiguration.

[15] A lifestyle would be then defined by the set of practices that agents situated under homogenous conditions producing homogeneous dispositions or habitus.

[16] This is what Bourdieu sought to make sense out of studying how the “scholar boom” occurred between 1954 and 1968 in France resulted in new relations between labor markets and qualifications, pushing several groups to implement new position taking and reconversion strategies in the face of a devaluation of their qualifications (Bourdieu 1984).

2.1.3 *Ordinary Forms of Consumption, Standards of Living and Lifestyles*

Bourdieu´s cultural and structural approach to consumption settled agenda in consumption studies for decades (Lamont 2012). Nevertheless, consumption sociologists made two crucial points in the last two decades that challenged some of Bourdieu´s formulations, or simply redirected the attention towards different phenomena. Firstly, that consumption patterns, tastes and preferences might be orderly distributed throughout the social structure, but they do not necessarily demarcate a clear distinction between high and low culture.[17]

Secondly, and more importantly for this project, is that although a great deal of consumption signals and communicates social differences, the majority of consumption –also with bigger environmental consequences- represents "ordinary" forms of consumption, largely overlooked and taken for granted (Gronow/Warde 2013). Among these forms of "un-conspicuous" consumption we find the purchase of groceries, consumption of electricity, water or listening to the radio while driving a car; all of them foundational elements of the routinized and unreflective practices that fuel consumption and create lifestyles (Ilmonen 2013). As Dwyer (2009) says, this is crucial because the uninterrupted expansion of consumers' demands for new products is based on the incorporation of distinctive goods into the "standard of living".

Studies trying to make sense of these forms of consumption focus accordingly on the process through which goods gain or lose status and are incorporated into daily life practices, explaining thus how "the demand is ratcheted upwards" (Warde 2011). This is a process where certain standards of consumption are normalized or naturalized as a socially accepted norm. In this sense, one could argue that groups of references are crucial not only in a competitive fashion, but as a perceived normality. Lifestyles are then not only a matter of positioning oneself in the social space, but also of unreflective and habitual consumption that reproduces one´s social position. As Longhurst/Bagnall/Savage (2013) have shown by studying radio consumption among middle class individuals in England, ordinary consumption is also a source of identity creation through which people can claim to be themselves.

[17] Scholars in America and UK that replicated Bourdieu´s "Distinction" in different settings throughout the 1990s and early 2000s found the striking paradox that middle class consumers were increasingly showing the existence of cultural "omnivorous", individuals with the capacity of enjoying cultural goods associated with high as well as popular culture (Warde 2011; Warde 1996; Warde/Wright/Gayo-Cal 2007; Peterson 2005; Lamont 1994; Gronow/Warde 2013). What these studies showed, is that although the principles of symbolic differentiation found by Bourdieu might persist in western societies, they change and reshape the boundaries between social classes as goods become massive, such as access to music or information technologies (Peterson 2005). In the case of the cultural omnivorous, the dichotomous distinction between high and low culture might have changed, or it is simply no longer a foundational differentiation in other societies.

This type of consumption is crucial to understand why a huge range of invisible and “ordinary” goods that constitute lifestyles are inelastic to income shocks. Through invisible forms of “ordinary consumption”, people´s lifestyles become increasingly demanding through the subtle influence of habits and routines. The crucial question, then, is: What are these lifestyles? How do they change over time and across social classes defining normative standards of consumption?; and how are they related to the financial practices of families? This has received far less attention in the sociological studies of credit.

2.1.4 On Lifestyles and Credit

In general there has been a general tendency in consumption studies to understand the consolidation of the field as a break with the previous dominance of production and capitalism in the analysis of consumption (Slater 2005b). In this sense, the concept of “identity” has been the keystone of a wide range of studies on consumption, basically under the premise that people´s identities cannot be separated from what they consume (Rey/Ritzer 2012), and that identities are not static but continuously created. This concern has roots in psychology and sociology. In psychology, the idea that identity is not given but achieved comes from studies of soldiers that lost their senses of sameness after the Second World War and was largely problematized in the light of the relationship between individual versus collective identities (Gabriel/Lang 2006). In sociology, on the other hand, it has been strongly associated with social theorists accounting for the post-modern condition. This is characterized by the dissolution of the traditional world, where enduring positions, authority and knowledge break down and give way to a condition of pluralism and uncertainty under which individuals are compelled to create and recreate themselves (Slater 2005b). At the core of this narrative, common to authors such as Giddens, Bauman and Beck, is the process of creation of one´s identity through consumption and the manipulation of meanings attached to goods. Thus, consumption is materialized in such way, that it is conveyed in ways that our identity is made available to others (Warde 1994). This “reflexive narrative of the self” could be summarized in the cultural imperative of late modernity according to which “We have no choice but to choose” (Giddens 1991). Under this imperative, our apparent capacity to choose in every instance –what to wear, eat, listen or do- is reflected upon a social identity that resembles the history of our decisions, creating an inevitably anxiety and the quest for stabilizing one´s self-identity.

According to this view, identity creation is seen to a great extent as a matter of personal selection, which stems from processes of “individualization” through which biographies become more reflexive and individually bounded in the face of a decline of collective sources of identity (such as class and family) (Warde 1994). This has to do with the central role that markets increasingly play in all dimensions of living via commodification and the consequent proliferation of transversal lifestyles within same income levels. In this scenario, the definition and redefinition of lifestyles through consumption become crucial to the materialization of the narratives of self-identities that are constantly open to revision. This in turn becomes a new source of anxiety every time market freedom implies that choices, and accordingly the building of the self-image, might be wrong (Bauman 2007).

The extent to which this narrative can account for the ever expanding consumption and more generally, for consumption at large might be exaggerated (for a discussion see Warde (1994)). But one can expect that pressures for creating one´s identity increase in the context of constant commodification and the consolidation of free-market and sovereign consumer ideologies. Moreover, the post-modern consumer continuously experimenting with lifestyles presents himself/herself across different fields of practices in a diverse range of situations. This means that individuals engage in activities as diverse as cooking, photography, sports or playing music, which are attached to specialization in particular "packages" of goods and services, which have been considered as an important mechanism boosting the expansion of consumption (Warde 2011).

But what is the relationship between identity creation and credit? This question has called the attention of scholars working under the paradigm of the "consumer culture theory".[18] Along these lines, Matthew J. Bernthal/David Crockett/Randall L. Rose (2005) have addressed the relationship between indebtedness and lifestyles through a qualitative study, recognizing two ways in which practices with credit cards help in attaining different lifestyles, determined by embodied cultural capital. *Lifestyle building* refers in this context to the attainment of specifics lifestyle objectives and is mostly related to material constraints and the attainment of low cultural capital lifestyles, and to the pursuit of different lifestyle objectives with a focus on opportunities and valued experiences in the case of high cultural capital consumers.

Lifestyle signaling is another practice, which stresses the attempt of credit card users to communicate one´s efforts through the act of acquisition. A low cultural capital is characterized by an effort to signal relative freedom from material constraints, while high cultural capital places more emphasis on showing purchasing power.

2.1.5 Consumption and Culture: Goods, Money and Credit

A different approach to consumption that sheds light into the social dynamics boosting the expansion of consumer credit stands at the intersection of anthropology and sociology. According to this perspective, that one could term "culturalist view", goods and more broadly materiality constitute the

[18] This is not a unified theory, but a family of theoretical perspectives that address the relation between the market, consumers and cultural meanings through an empirical orientation that favors the qualitative dimensions of consumption in different socio-historical contexts(Eric J. Arnould/Craig J. Thompson 2005).

foundations of social life, making the world surrounding us understandable and meaningful. The distinctive mark of this perspective is to move away from the *communicative* dimension towards a more ontological and ethnographical understanding of their uses and their role in society (this means that in many cases these theories seek to reach a scope that goes beyond the modern “consumer society” and account for the relationship between people and objects in a more universal sense). Ultimately, although some of them owe much to structuralism and semiotics in the understanding of consumption as a “system of meanings”, they strongly focused on the practices of consumption (Slater 2005b).

Mary Douglas´ theory of consumption could be considered as a landmark of this culturalist approach to consumption. In her book written in collaboration with Baron Isherwood “The World of Goods” (Douglas/Isherwood 1979), a radical conception of goods and consumption as pervading social life is offered: “Instead of supposing that goods are primarily needed for subsistence plus competitive display, let us assume that they are needed for making visible and stable the categories of culture.” P59.

Consumption is, according to Douglas (1982), the manifestation of culture and vice versa; it represents the “vital source of the culture of the moment”; it is the arena in which culture is shaped and negotiated. The basic point is that beyond their physical properties, people communicate with goods in more essential ways than showing status, to the extent that they rather make and maintain social relations. For Douglas, goods have an important ontological position for the constitution of society in so far they are understood as ritual adjuncts, the material foundations of those conventions that set up visible public definitions, making possible the construction of an intelligible universe around us, by marking or classifying events. More particularly, goods work as markers, grading events in more or less appropriate ways and demarcating the temporal dimension of the social universe, notching intervals that differentiate the life cycle (Douglas/Isherwood 1979). People thus need goods to give and get “marking services”, being thus present in others´ rituals of consumption. As such, goods as markers are recognized and judged by others according to the fitness of the things used to celebrate different occasions, and consumption turns out to be understood as a system for the exchange and control of information. It is appropriate, says Douglas, to send flowers to a sick person but not their value in cash; some things can be sold, bought or gifted, but not others. Accordingly, the demand for goods stems from the demand for *marking services*, which means at the same time a demand for personal availability.[19]

[19] According to such view, Douglas looks into how the distribution of status interlocks with the technology of consumption, understanding status as personal availability, or the use of goods in a scale of consumption. While status comes from individuals´ capacities to mobilize an important number of fellow consumers to join in marking their occasions (Douglas 1982), luxuries are considered technological aids that in this process relieve the pressure on available time, space and energy. Thus, consumers under comparative disadvantages in the technology of consumption lose out in the struggle to control information, and goods remain “…luxuries until they have become part of the normal technological base from which all consumption activities proceed.” (Douglas and Isherwood 1979, p. 112).

A similar position is held by Daniel Miller´s theories of stuff and shopping, where consumption and more broadly materiality play a major role in the making of society. Miller (1995) provides the foundations of “material culture” studies, which aim at replacing a theory of things from the point of view of their representation, for a theory of the process of their objectification. Like Douglas, he conceives objects as material settings that make us aware of the boundaries that demarcate the appropriate from the inappropriate. This quality of stuff is, however, not rooted on its material properties and tangibility, but rather on the fact that it is “unremarked upon” and taken for granted. Objects, accordingly, remain peripheral to our vision –what he terms the “humility” of goods- and it is the whole system of things and their internal order that make us what we are (Miller 2010). Miller (1998) has reflected upon the intertwinement of interpersonal relations with consumption by showing how shopping “…becomes one of the primary means by which relationships of love and care are constituted by practice.” (Miller 1998, 18); this is what Miller has called “making love in the supermarket”, supporting the idea that sociability and consumption complement each other, while withdrawal from consumption results in isolation (Zelizer 2005a).

Material culture studies provide a key insight. Under this integrative notion of consumption, one can see that material deprivation is translated into exclusion from the universe of information that goods represent. Deprivation or the incapacity of acquiring certain goods (markers) is translated into the exclusion from important social events, which might, in turn, be translated into new material disadvantages. This is why not reciprocating the proper gift represents a social burden, or why not wearing the right suit may turn a job interview into a failure.

But this intertwinement between goods and culture has also been counter intuitively extended to the relationship between money and culture. This has been achieved to a great extent thanks to the works of Viviana Zelizer, who has offered an approach that stresses the “social meanings of money”. This approach does not provide a sociological theory of money (Ingham 2001; Ingham 1998). It rather helps us grasp the way in which the generality of money –the quintessential impersonal means of exchange in modernity- is curtailed and made more particular and meaningful through the active creation of distinctions made out by actors in many domestic situations (Carruthers 2010). These practices constitute what is called the “earmarking of money”, the active attempts of actors to create boundaries to commodification and embed the uses of money in social relations and representations (Zelizer 2002; Zelizer 2005b). In this vein, for example, studies on households consumption and budgeting show that gender ideologies and roles, family responsibilities and class identity shape altogether the way in which money is controlled and managed within the household unit (Stillerman 2004).

Zelizer´s analysis could be extended to credit and debts. As anthropologists have made clear since Mauss (2005), debts also play a crucial role in the reproduction of society and culture. They have long existed and how they are organized depends on the meanings to which they are bounded in a particular time and place. Along these lines, anthropologists have pointed out that the relations between lenders and borrowers transcend their economic and financial character and "…entail emotions and feelings such as dignity, prestige and respectability, and also shame, humiliation, anxiety, anger, revenge or even friendship, gratitude and love" (Guérin/Morvant-Roux/Villarreal 2014, p. 296) 296.

Summing up, with authors such as Douglas, Miller and Zelizer, we could think better of those financial and consumption practices that are less salient and do not point towards the reaffirmation of one´s status, but are nevertheless equally important for the reproduction of interpersonal relations. In this sense, important reasons that explain why people use consumer credit are only conceivable through the lens of the cultural reproduction of society materialized in everyday practices, rituals such as celebrating birthdays, commemorating a family transition in the life-cycle, bringing flowers to a funeral or reciprocating the right gift.

2.2 Fieldwork and Methods

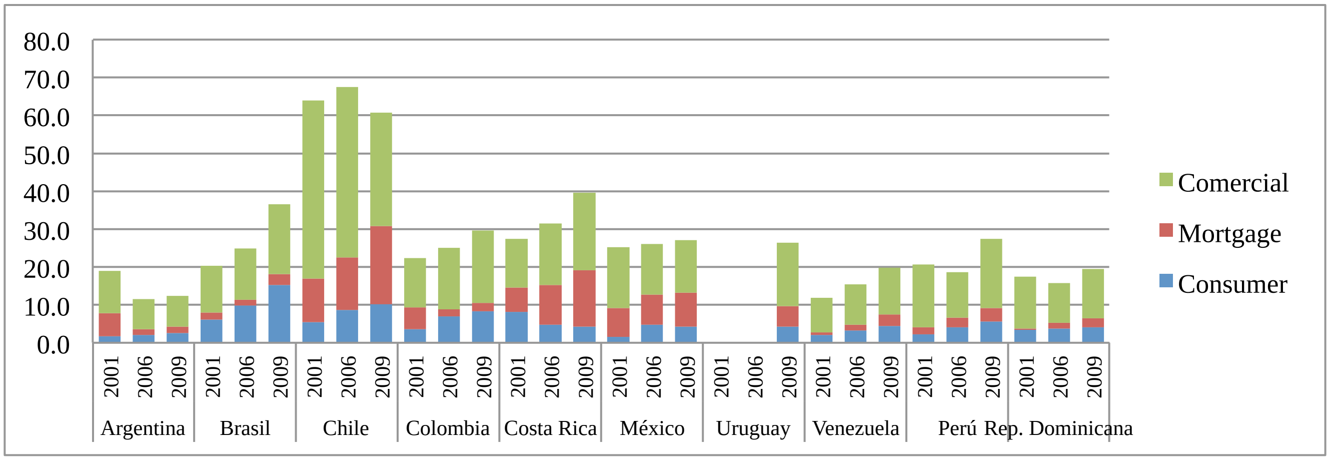
The main goal of this dissertation is to integrate three levels of analysis: the political and institutional foundations of Chile´s Privatized Keynesianism, social dynamics of consumption, and the meaningful and everyday-life financial and consumption practices carried out by households. To accomplish this integration, I triangulate methods and draw on several sources of information, such as secondary literature, survey analyses, and two fieldwork trips to Santiago de Chile. In this section, I review these research methods and sources of information in a more detailed fashion. I start by adding a few remarks on my case selection strategy. Then, I will move on to describe the quantitative sources used to conduct the analyses, the classifications of socio-economic groups that are used throughout the chapters, and provide a more thorough account of the qualitative fieldwork.

2.2.1 The case of Chile

Like most cases studied in the field of political economy, the embracement of neoliberal policies and the retrenchment of the welfare state in Chile were followed by an explosive financialization of consumers. Unlike these cases, however, the financialization of Chilean households did not take place in a context of wage stagnation but in a situation of economic growth and collective improvement. In this sense I already argued in the literature review that the puzzle this case raises relates to the need of explaining why people acquire consumer debts in contexts of improvement. Notwithstanding, there are still a few remarks that are worth highlighting.

To start with, Chile represents a paradigmatic case among South American countries: it was pioneer in implementing commodification processes and dismantling the welfare state; its neoliberal institutional arrangement has been very resilient to institutional changes (Madariaga 2013); non-bank financial institutions have adopted credit scoring technologies and banks have been displaced from the dominant position in the market for consumer lending; and it is also the South American country with the deepest financial penetration (see chart below).

Figure 2: Financial Depth in Selected Countries of Latinamerica (percentages, total number of loans as a percentage of GDP)



Source: From available data in Latinamerican Countries. Taken from OECD (2011)

Nowadays, the "revolution of retail" –as it is known in Chile- crossed the national borders to the point in which the Chilean commercial firms have become one of the biggest chains in the continent. According to the ranking made by Delloite in 2009, three of these companies already had the first, fifth and ninth places in Latin America (Cencosud, Falabella and D&D, respectively).[20] This is important because the average South American consumer is less attractive for banks, which leaves the way open for these emerging transnational actors to expand their business model and financialize middle and low income consumers. This means that if the financialization of consumers in South America deepens in the coming years, it will be most likely carried out by department stores that have already spread throughout the continent. Thus, studying the financialization of Chilean households arguably provides conceptual tools to understand the financialization of households in the region.

2.2.2 Quantitative Analysis

The main source of information for quantitative analyses in this dissertation is the "Encuesta Financiera de Hogares" (Household Finance Survey, from now on EFH), a panel survey conducted by the

[20] According to data from the Santiago Chamber of Commerce, 2010 was the year with the highest foreign investment, mainly realized by the investments of these companies in the continent, which reached US$9.800 million during the first quarter.

Central Bank of Chile during the period 2007-2011 in the urban zones. It is a representative survey at the national/urban level which, according to the Statistical Yearbook for Latin America and the Caribbean (Anuario Estadístico de América Latina y el Caribe) prepared by the Economic Commission for Latin America and the Caribbean (CEPAL), represents the 87.5% of the Chilean population.[21] The unit of analysis is the household (interviewing the head of household) and the sample for 2007 was 4.021 cases. The last data base available is for 2011/2012.

The EFH data bases (2007-2011) made possible a deep characterization of the financial situation of Chilean households for the very first time. It includes detailed information about household assets and liabilities, payment conditions, default rates, number of credit cards, bank, car and educational loans, as well as the utilization of these debts, among others.

With regard to the utilization of the survey, it is important to stress that the majority of multivariate analyses I am interested in have been already conducted by economists, most of them from the Central Bank of Chile, whose main concern is to monitor the "debt at risk". More specifically, the main goal of these works is to estimate the determinant of debt and default levels, and their main dependent variables are the "total debt to annual income ratio" and the "monthly debt to income ratio". Nevertheless, these works are in general not interested in assessing why people acquire these debts in the first place. Tackling this issue I conduct in chapter 6 three logistic regression analyses. These seek to complement existing research by attending to the role of different structural factors in shaping the odds of having different types of consumer debts. The dependent variables in these three separate analyses are dummy variables that establish whether the household holds at least one debt with department stores, a bank loan or a bank credit card debt. As control variables, I introduce socio-demographic features of the head of household (gender, age group, educational level, number of household members), as well as other variables such as total income, expenditures in education, occupational status and homeownership. It is important to mention that the aim of these analyses is not to provide accurate predictions but to explore possible causal factors affecting the likelihood of acquiring any of these consumer debts. These quantitative analyses provide the overall context and serve as background knowledge to inform about both social dynamics of debts and financial practices in more detail.

2.2.3 Classifying Socio-economic groups in Chile

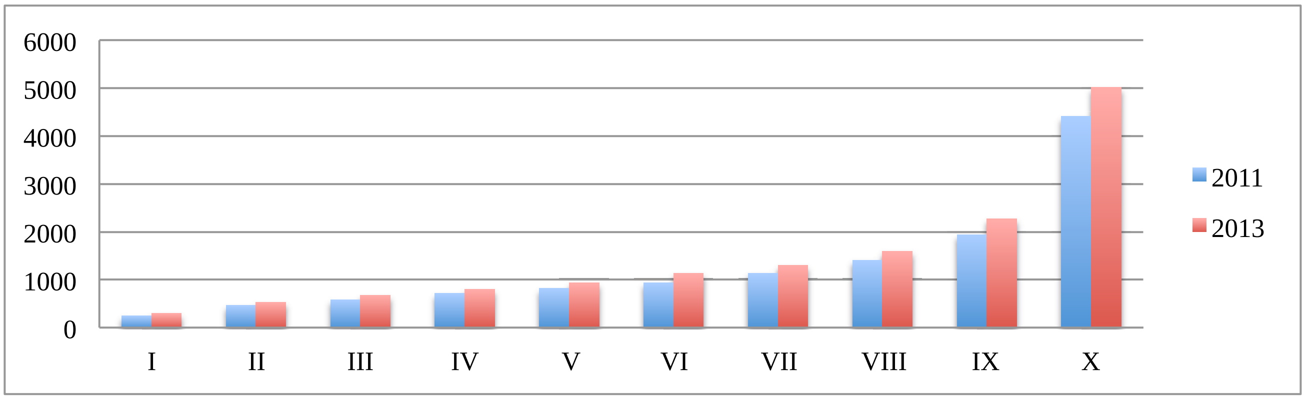
As the reader will notice, this dissertation relies on several secondary sources of information to characterize trends in poverty, income distribution, and public opinion, among others. This makes the task

[21] See http://www.cepal.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/7/45607/P45607.xml&xsl=/deype/tpl/p9f.xsl&base=/deype/tpl/top-bottom.xsl

of providing a standard classification of socio-economic groups very difficult. In this section I seek to overview the main classification systems I use throughout the chapters.

The main source of information about household incomes in Chile is the Survey for Socioeconomic Characterization, CASEN. This survey is representative at the national level; it has been is conducted every three years since the late 1980s´, and it is currently used to develop social policies. This database sorts households according to income deciles or quintiles, which are normally used by researchers to study poverty and more broadly income distribution. That is why many parts of this dissertation sort households in terms of income quintiles and deciles.

Figure 3: Average Households percapita Income by Income Decile 2011and 2013 (including transferences, USD November 2013)



Source: Socioeconomic Survey, CASEN 2011 and 2013

By the same token, taking the unequal distribution of income into consideration, the Central Bank of Chile sorts households from the Household Finance Survey (EFH) into three groups: low-income group from deciles 1st to 5th, middle-income group from deciles 6th to 8th, and high-income group for the 9th and 10th income deciles. This is why most references to the EFH group consumers into low, middle and high-income.

Finally, another important classification in Chile used by sociologists, marketers and social sciences in general characterizes socioeconomic levels through consumption and educational levels. It is an adaptation of the categories used by the European Society for Opinion and Marketing Research (ESOMAR) carried out by the Association of Market Research in Chile. This classification has three main features: it assigns a score to the educational level of household heads and the possession of a set of consumer goods. These households are then placed in a continuous line according to their scores and divided into five groups that correspond to percentiles 10 (poor), 45 (middle-low), 70 (middle), 90 (middle-upper) and 100 (upper) (see Appendix A).[22] Due to the changing nature of consumption standards, income and educational levels, marketing agencies have to update the criteria (Rasse/Salcedo/Pardo 2009).

Assessing the role of transformations in the social structure and linking the ESOMAR classification to other stratifications based on occupational status, Rasse/Salcedo/Pardo (2009) suggest that the ESOMAR classification in Chile could be described as follows:

Table 1: ESOMAR´s Socio-economic Classification in Chile

Socio-economic Groups	**Description**
Upper	Capitalists, executives, professionals, technicians, and the petit bourgeois, who altogether represent around 18%.9% of households. It is close to the share of households that have domestic service and travel abroad with high frequency.
Middle-Upper	Close to the category of “formal non-manual worker”, representing around 16% of households. The main source of income of these households is their jobs, which provide stable remunerations according to their cultural capital. They acquire debts to buy durable goods and housing, and are far from the poverty threshold.
Middle	It is the emergent group that resulted from economic growth of the last decades, represented by formal-manual wage earners that reach around 30% of households. Their main source of resources is labor-income and their cultural capital is low. They have accumulated goods and can resist some fluctuations of the economic cycle.
Middle-low	This group is vulnerable to fall under the poverty threshold and represents 25% of households. They have most likely moved across the poverty threshold and are exposed to health and employment shocks. It is mainly “informal proletariat”, eventually subjected to the volatilities of the economic cycle.
Low	This group represents the share households in situation of poverty. They have a low capacity for accumulating goods and an important part of their incomes comes from government subsidies.

Source: Based on the classification made by Espinoza/Bazoret (2009)

[22] It is important to keep in mind that such cut points are arbitrary and do not delimit any social boundaries across socio-economic groups.

2.2.4 *QUALITATIVE ANALYSIS AND FIELDWORK*

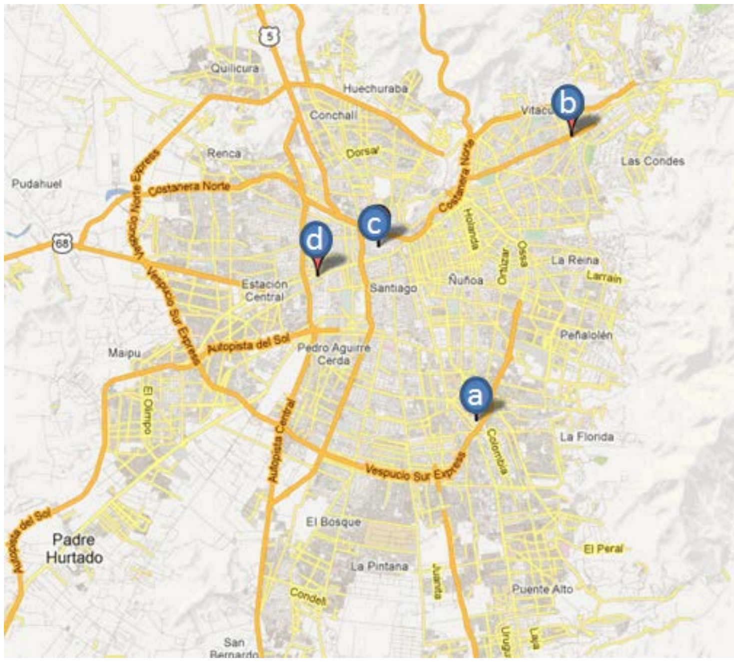
Finally, the research strategy of this dissertation consists of unveiling the “black box” of households in order to illuminate the financialization of consumption from the perspective of the everyday life of credit and consumption. Following consumption sociology, this entails taking micro-foundations seriously by conducting qualitative fieldwork, characterizing consumption and financial practices of families, as well as their trajectories in the “social space”. This is why an important thread of this dissertation is empirically informed by qualitative fieldwork conducted in the city of Santiago de Chile. The fieldwork was divided in two stages.

Firs Stage: Understanding the Financial Industry

The first step of the fieldwork took place between the 15th October and the 24th December 2012. It was mainly focused on understanding the market for consumer credit from a supply side perspective. Two main activities were carried out:

1) **Semi-structured interviews with key actors of the consumer credit market**: 21 semi-structured interviews were conducted with key actors of the industry, who can be grouped into four different categories: Risk Management and Data Miners, Marketers, Department Stores´ managers, and Regulation Agencies. The list of interviewees is in Appendix B.
2) **Observations in department stores and shopping malls in different districts of Santiago:** Periodic observations were conducted in four different shopping malls and department stores in the city of Santiago. The selection was guided by the preliminary analysis of the interviews, according to which there are clear spatial-geographical segmentations of consumers and credit supply in this market.

Observations conducted in different shopping malls and department stores in Santiago de Chile



Source: Google maps.

a) **Shopping Mall "Plaza Vespucio".**
   District: “La Florida” (middle and middle-low income population).
b) **Shopping Mall "Alto las Condes".**
   District: “Las Condes” (high income population).
c) **Ripley, department store**
   District: “Santiago Centro” (middle and middle-low income population).
d) **ABC DIN, department store**
   District: “Estación Central” (low-income population).

Second Stage: Studying the Financial Practices of Middle Class Families in Santiago

The second stage of the fieldwork was conducted in Santiago de Chile between April and July 2013. The research design combined in-depth interviews and oral life-stories with heads of households of 26 middle class families in Santiago de Chile.

The main reason to focus on middle class consumers is that most qualitative approaches to the consumption of finances in developed countries –and in Chile- focus on low-income populations. As a consequence, the economic practices of increasingly financialized middle classes remain unexplored (Grohmann/Kouwenberg/Menkhoff 2014; Wilkis 2014; Villareal 2008; Angulo 2014; Morvant-Roux et al.

2014; Barros 2011; Han 2012). This is not a trivial point, basically because rising middle classes have been one of the main motors of the expansion of consumer credit in Chile. Moreover, these highly heterogeneous groups consume finances differently from low-income populations in at least three ways: they enjoy more discretion over their incomes; they are fully integrated to the formal financial system; and they use mixed sources of credit (Marambio 2011). This is not to claim that middle classes are more rational or that they deploy complex financial practices, but rather that due to their heterogeneity we could expect new and unpredicted ways of consuming finances emerging from their everyday life. By the same token, their indebtedness might be shaped by different sources of economic vulnerability, which means that although they are not necessarily in danger of falling below the poverty line, they are in many cases in danger of losing their social status (Frank 2005a; Frank 2007; Sullivan 2000; Warren 2003). Since these groups are farther from material deprivation, they provide a suitable subject to study the relationship between the socially constructed standards of living, consumption and debts from the perspective of "relative deprivation".

There are several ways of classifying middle classes, and they represent between 30 and 50% of the population according to the chosen definition. Thus for example, it is possible to use measurements around the median income (OECD) o in absolute terms (World Bank) (Bazoret/Fierro 2011; Espinoza/Bazoret 2009). In this dissertation, I use a "residual" definition of middle-class based on middle-income deciles for two main reasons. This way of sampling households acknowledges the impossibility of attributing substantive properties to the so-called middle-class. Since this is a very initial exploration into the consumption of financial services of the Chilean middle-class, the goal is to cover a range of financial practices as wide as possible. In this sense, this research work follows studies in social stratification in Chile and considers households that, at the moment of the interview, had at least one type of consumer debt, and whose per capita income was between the III and VII deciles in the income distribution (Bazoret/Fierro 2011; Espinoza/Bazoret 2009). According to the Survey of Socioeconomic Characterization conducted in 2011, the average per capita income of households between the III and VII income deciles ranged from 315,054 to 667,302 Chilean pesos, which is equivalent to $651 and $1380 USD, respectively. In this group we find household heads with various educational levels and occupations as different as secretaries, engineers, accountants, skilled manual workers, retired pensioners, taxi drivers, and housewives, among others.

Interviewees were contacted through third parties and a snowball strategy was implemented to access new households. The duration of the fieldwork and the reluctance of people to talk about their personal finances made interviews a difficult endeavor. In general terms, I obtained a saturation of information approximately after the twentieth interview. What remains pending and requires further interviews and observations, however, is a further characterization of different profiles of debtors identified in the interviews.

The interviews had two main parts. The first one consists of a short survey that gathers socio-demographic information, as well as a characterization of household income, assets and liabilities that facilitate the contextualization of the households with existing surveys (see Appendix C). The second one -and most extensive part- aims at reconstructing the credit-story of families within the broader context of family relations and life-cycle transitions, as well as educational, intergenerational, individual and labor trajectories and consumption patterns (see Appendix D). Furthermore, the interviews explore the meanings and uses of debts, as well as their conenctions with consumption patterns. The majority of interviews were recorded, transcribed and analyzed with the software for qualitative analysis N-Vivo.

PART I

Financialization and the Politics of Debt in Chile

INTRODUCTION

Is Chile a case of Privatized Keynesianism, and if it is, how does it work in practice? Put differently, does consumer credit in Chile work as a social policy that makes distributive conflicts less salient?

As predicted by theories on Political Economy, neoliberal reforms carried in Chile during the 1970s´ and early 1980s´ were followed by an explosive expansion of the market for consumer credit from the 1990s´ onwards. If credit cards in the early 1980s´ were only restricted to a few privileged and loyal department store´s customers, five years after the return to democracy (1995) one and a half million of households had acquired these debts. These were already distributed throughout different social strata, but specially concentrated in the middle and middle-bottom of the income distribution (PNUD 1998). By the turn of the century, the number of department store credit cards circulating rose to 7 millions, in a country where the population over 18 was hardly eleven millions.

But what does it mean to say that such expansion corresponds to the institutionalization of Privatized Keynesianism? Understanding the financialization of consumption under such overarching framework shapes the type of explanation one can offer in two ways: Firstly, the "Privatized Keynesianism" hypothesis forces one to think of a political economy in systemic terms. That is to say, that what happens in the area of consumption and households cannot be isolated from major dynamics in labor markets, social policy, the economic cycle and distributive politics. At the level of explanation, the consequence is that it is not possible to resort to single causes to explain the rising indebtedness of Chilean households, such as declining interest rates, a particular rationality of consumers, or spirals of conspicuous consumption. This leads us to the second feature, which is that one should look at the phenomenon by recognizing that there are no a-historical explanations, overtly implying that the specific distributive conflicts present in a society, as well as the means through which they are dealt with, are historically determined.

Thus, this analytical framework introduces two levels of explanation: one showing how Privatized Keynesianism works as a system and the specific role that financialization plays in a political economy, and the other one making the concrete causal mechanisms explicit through which these major structural contexts precipitate household indebtedness. Accordingly, the outcomes of these two levels of explanation are also different. Although not less empirical, the first one takes as its starting point the abstraction of the "average household", a portfolio conception of the household unit that consumes, saves, acquires liabilities and assets, and takes the form of an overarching narrative that makes sense of broader trends of society. The second level of explanation is rather different and implies delving into the minutiae of socio-cultural dynamics, moving away from the portfolio view of the average household and exploring the everyday life of “real households”, their practices, expectations, biographies and concrete social relations.

This part of the dissertation provides the historical framework that serves as the entry point for both endeavors. In concrete terms, I show that the increasing financialization of consumption in Chile was the result of the institutionalization of Privatized Keynesianism that followed structural reforms in the 1980s. Accordingly, Privatized Keynesianism in Chile should be located at the intersection of three historical coordinates: the privatization of risks, economic growth and inequality. These three pillars of Privatized Keynesianism in Chile will articulate in specific ways and shape the distributive conflicts that the financialization of consumption made less salient or postponed in different ways during the period 1990-2014 under study. If the financialization of Chilean households served as a social policy, I argue, it was to modulate and ameliorate the destructive forces of inequality and the consequences of privatizations in a context of growth. The following section develops the three main pillars of Privatized Keynesianism in Chile.

These points being already discussed, I will then move on to the first level of explanation in chapter 4 and will argue that, unlike the case of developed economies, the financialization of housing, education and consumption in Chile did not serve as an unintended policy that helped democratic governments keep pace with already established standards of living, but was rather used as a policy tool to carry out and make a modernization process viable. However, in chapter 5 I will develop this idea further, by showing that unlike the cases of education and housing, the financialization of consumption was carried out by department stores that exploited a situation characterized by lack of regulations and low wages. Once this general context is settled, I will outline the main features of the financialization of consumption in Chile.

CHAPTER 3 THE INSTITUTIONALIZATION OF PRIVATIZED KEYNESIANISM IN CHILE

On February 17th, 1982, Margaret Thatcher wrote a letter to Friedrich Von Hayek –with whom she had had dinner some weeks before- remarking that "The progression from Allende´s socialism to the free enterprise capitalist economy of the 1980´s is a striking example of economic reform from which one can learn many lessons." To what she added: "However, I am sure you will agree that, in Britain with our democratic institutions and the need for a high degree of consent, some of the measures adopted in Chile are quite unacceptable."

The words of one the fiercest supporters of neoliberal reforms are exemplary of the pioneer structural transformations underwent in Chile during the 1970s and 1980s, showing that the radical character of such reforms can be hardly exaggerated. On the one hand, radical economic adjustments with high social costs for unprotected workers could only happen in the context of a total suppression of democratic institutions. On the other hand, the suspension of democratic institutions and the lack of a clear economic and social program on the part of the military government made Chile a suitable laboratory for the experimentation of emerging monetarist theories and new modernization projects (Ree 2007).

The institutionalization of Privatized Keynesianism took place in this context of deep structural transformations and social changes, which scholars in the late 1990´s did not hesitate to retrospectively understand as a *capitalist modernization* (for a revision of these works see Ariztía/Bernasconi (2012)). This transition towards a market society was not a smooth path from socialism toward a liberalized and open economy. It was rather an experimental process of trial and error that even questioned its own viability (Garretón 2012). Since the overthrow of Salvador Allende in 1973, it took almost two decades and tremendous social and economic costs before it stood as a clear pathway and eventually consolidated into a particular "growth model" during the democratic governments in the 1990´s. A series of successive structural reforms precipitated the "great transformation" of Chilean society towards the liberal utopia of self-regulated markets, fiscal austerity, entrepreneurship and individual responsibility (Taylor 2006; Munoz 2007).

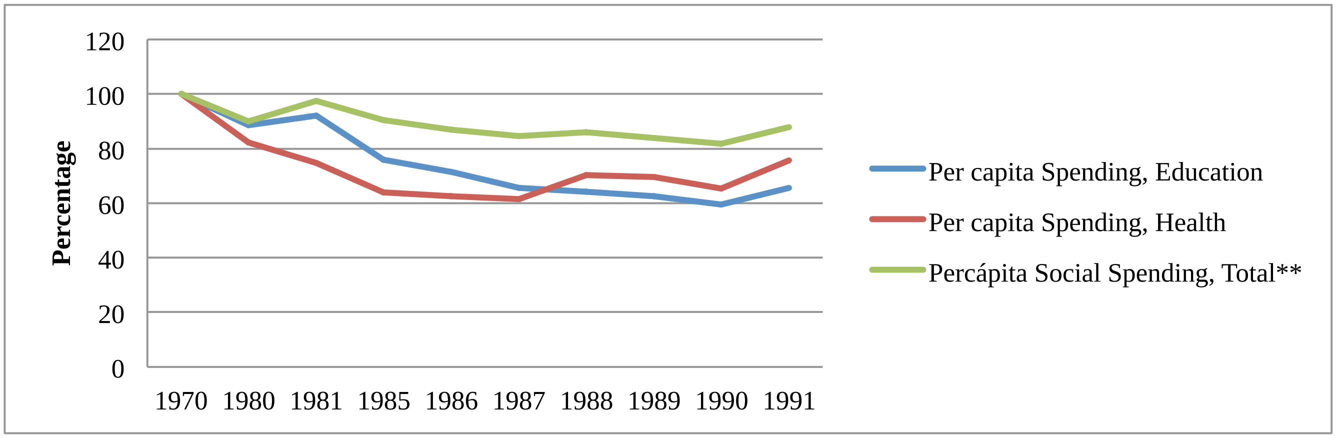
The first economic policies of the military government aimed at tackling the fiscal deficit through a cut in public spending and the introduction of a 20% consumption tax, while at the same time taxes on capital were substantively diminished (Ffrench-Davis 2004).[23] In parallel, import tariffs were reduced and collective bargaining was completely suspended. This had an important impact on real wages that by 1981 were lower than the 1970-1971 levels (Ffrench-Davis 2004; Foxley 1982).

the military government put a *Plan of Economic Recovery* to work for the sake of increasing inflation -which after the liberalization of prices in 1973 rose from around 400 to 590%, the deterioration of production, and a crisis in the balance of payments between 1975 and 1976, better known in the

[23] Former expropriated lands were restituted and nationalized companies received what was considered a "fair compensation".

literature as the "shock therapy" (Klein 2007). It basically consisted of a radical reduction in the monetary supply by restraining fiscal spending. The effects of the shock therapy were felt immediately, and by 1975 fiscal spending had already decreased in 25%, and industrial production almost 30%. In 1976, unemployment rose to almost 20% and real wages fell 40% in comparison to the level of 1970 (Foxley 1982).

Figure 4: Evolution of Percapita Social Spending, 1970-1991 (1970=0)



Source: data taken from Ffrench-Davis (2004).

However, the shock therapy could not stop the recession and in June 1976 Pinochet announced a new plan to restrain costs through the regulation of exchange rates in order to precipitate a convergence between the national and international inflation levels. Additionally, in parallel to the demand shocks, long-term structural changes were implemented, such as the privatization of public companies, the creation of a capital market through the liberalization of interest rates and a steady tariff reduction (French-Davis 2004).[24] By 1978, the Chilean economy was open (import tariffs were settled at 10%) and stabilization policies showed some results. In 1977, 1978 and 1979 the Chilean economy showed signs of recovery by growing at annual rates of 8,3, 7,8 and 7,1%, respectively. Unemployment decreased from 11,8% in 1977 to 10,4% in 1980, and between 1977 and 1981 the general wage index increased in real terms from 100 to 136 (Foxley 1982).

But this recovery would soon prove to be temporary. The radical liberalizations and an orthodox application of monetarism led to one of the deepest crises that the military regime faced. The results were an accumulated fall of the GDP of 17 percent between 1981 and 1983, an increase of unemployment in

[24] By 1980, out of 507 public companies that existed in 1973, only 15 remained in that condition. Public employment fell 20% from 1974 to 1978, especially affecting public companies and those governmental institutions that were in charge of steering industrial policies under the logic of the "import substitution model" implemented in the previous decades. In 1979, nearly a 30% of expropriated lands were given back to their former owners (Foxley 1982).

rates closer to 20%, and a dramatic decrease of real wages (De Gregorio/Cowan/Baytelman 1999). This marked an important shift in the way of implementing economic policies towards a less strict application of monetarism. After the debt crisis, where banks had to be re-nationalized and financial markets regulated, the regime applied a more pragmatic version of neoliberal policies and implemented “seven modernizations” that aimed at breaking away with the state-developmental model of previous decades (Ffrench-Davis 2004). This inaugurated a new era where a clearer growth-model consolidated and gave birth to Privatized Keynesianism in Chile.

Until the 1980s, the military regime in Chile followed monetarist prescriptions and carried out several reforms oriented to liberalizing the economy, taming inflation and reducing the fiscal deficit (Edwards 1991). During this period of experimentation there was also an important degree of uncertainty regarding the next steps of the military regime. In fact, the military government was internally divided with regard to the *modernization* project that the country was meant to follow. These fractions were basically represented by traditional groups that favored a strong state leading the national development, on the one hand, and technocrats and liberal-conservatives that favored the transition towards a less centralized and economically liberal society, on the other (Taylor 2006; Gárate 2012). By the early 1980s this controversy was already settled; the Chicago boys group composed of both technocratic neoliberal economists and conservative *gremialistas*, gained strategic position in the government and with the support of the dictator inclined the balance towards a more radical reformulation of the national *modernization* project based on the free-market ideology.

In part, this had to do with the increasing prestige that this group enjoyed after the economic recovery of the late 1970s, which in many circles was considered as the “Chilean Miracle” (Winn 2004).[25] The result was twofold: firstly, the need of institutionalizing the regime in the wake of international pressure resulted in the authoritarian Constitution of 1980, which sought to create a protected democracy under military tutelage (Winn 2004). And secondly, with the Chicago boys occupying key positions, the government implemented in the early 1980s the most important and radical structural reforms that targeted education, health and social provision, as well as labor markets, political centralization, agrarian reform and judicial power. These reforms were already available since the 1960s in an extensive document called *El Ladrillo* (literally “The Brick”). *El Ladrillo* was written by economists working at the Catholic University (Universidad Católica de Chile) and contained the modernization program that aimed at reformulating the economic and welfare institutions in such a way that it would represent a total break with the statist and national developmental model of the previous decades.

The materialization of this modernization program progressively institutionalized Privatized

[25] Although the “miracle” had more to do with the fact that the growth of the 1976-1980 period was rather a recovery from the recession of 1975.

Keynesianism in Chile as a radical break with existing institutional arrangements. Such re-foundation of economic and social institutions created a particular articulation between the state, households and markets that would serve as the context where the market for consumer credit –and financialization at large- would expand and work as a policy tool. This process has two main structural features. Firstly, the commodification of education, health and pension system shifted the responsibility for the material reproduction of society from the state to the private sphere, putting the financial burden on the shoulders of families. And secondly, economic openness, labor market reforms and the privatized pension system created precarious conditions for active and retired workers, while at the same time facilitated the accumulation of capital in unprecedented ways. As a result, both economic growth and inequalities coexisted throughout the whole period, where the market for consumer credit expanded from the late 1980´s until today.

3.1 Commodification and the Privatization of Risk

If the embracement of neoliberal policies had any impact on the institutionalization of Privatized Keynesianism in Chile, one can expect it to be nowhere else more visible than through the dismantling of the welfare state. In this respect, one of the foundational pillars of Privatized Keynesianism in Chile was the privatization of health, education and pension funds. Along with transformation in labor institutions and the dismantling of the developmental state that would no longer subsidize prices and ensure employment in times of crisis, commodification put a big burden on the shoulders of households and expose them to the economic cycle. This process might be well termed as a *privatization of* risks (HACKER 2004; Hacker 2007), which means that several types of risks that exist in society -ranging from health, job loss, retirement, or even natural disasters- that were previously collectively faced with the support of the state and other intermediary institutions, are now the exclusive responsibility of families. Four reforms to the welfare and labor institutions were crucial in leaving families progressively on their own.

3.1.1 Reforming the Health System

The reform to the health system was implemented in 1979. It entailed a series of organizational reconfigurations that sought to decentralize the provision of public health. The reform created the National Health Fund (FONASA) that concentrated the administrative functions of the former Health National Service (SNS) and Medical National Services of Employees (SERMENA), and introduced a new financing mechanism (Torche 2000). In the spirit of guaranteeing the free access to health assistance instead of the obligation to provide it, it allowed the incorporation of private insurance companies called

ISAPRES that would compete with FONASA in the provision of health services.[26] Under the new system, workers have to contribute the 7% of their income to finance a health system of their preference. As I will show in chapter 12, such *dualization* will have important effects on the budgets of Chilean families that spend the highest levels of out-of-pocket medical spending as a share of total consumption in the OECD countries.

3.1.2 The Educational reform

The educational reform took place in 1981 with the aim of expanding coverage (that fell 30% since 1975) in adherence to the following principles of "freedom of choice" and subsidiarity. The reform decentralized the control of educational institutions down to the municipal level, which since then are in charge of providing and administering public schools. Chile implemented for the very first time a system of "vouchers" at a national scale, which consisted of a subsidy that the state would pay to private schools for each student they "enrolled". The idea was to provide incentives to the private sector to enter into the educational business and foster competition among them. The reform created a three-tier system consisting of "public schools", "privately-owned subsidized schools", and "private schools". Since the return to democracy, the Chilean state did not change its subsidiary role, but systematically tried to correct market failures, promote the enhancement of educational quality and expand its coverage (Raczynski/Muñoz 2007).[27] Except for a few cases –the so-called "emblematic public schools"- the schooling system became a source of insecurity every time educational attainment consistently reflected the capacity of families to invest in the education of their children.

Something similar occurred at the level of higher education. The educational reform created a new market for higher education in 1981 by authorizing the creation of private universities and new institutions called Professional Institutes and Centers for Technical Education[28]. Although between 1981 and 1987 only five new universities were at work (and 23 professional institutes), in the last years of the military regime, between 1988 and 1989, the creation of 17 new universities and 34 professional institutes was

[26] Although ISAPRES were meant to work as brokers that would connect individuals with health services, in practice they became a "vertically integrated" through economic groups that would progressively venture into the provision of health services through private clinics.

[27] Between 1985 and 1990 spending on education decreased in 11 percent in real terms. But this situation was reversed during the democratic governments, growing more than 10 percent in real terms per year between 1990 and 2009. The main priorities of the government have been preschool, primary school and secondary school, improving their coverage considerably among all income quintiles. Several policies aimed at increasing coverage, from full school day to preferential per student subsidy (Arellano 2011).

[28] New Universities would be created under the political approval of the Ministry of Internal Affairs (Ministerio del Interior) until 1988, and a technical supervision from the Ministry of Education.

approved. Only three months before the new democratically elected president Patricio Aylwin took office in 1990, 18 universities and 23 professional institutes obtained the official approval. Such proliferation went hand in hand with a decrease in their quality, since the five main external accrediting universities absolutely exceeded and relaxed their supervisory role. As a consequence of the reform, both public and private institutions had to recover part of their operational costs by charging fees to their students. This inaugurated a new era where the access to higher education is tied to the purchasing power of families.

3.1.3 The Privatization of Pension Funds

One of the most important reforms carried out by Pinochet was to create a private pension system. Although private pension funds already existed at the time (in the US, for example), the novelty was that in no country was the private sector the main pillar of the pension system (Gárate 2012). Again, in breaking away with the collectivist approach of the previously state-owned pension funds (based on contributions from the state, employees and employers), José Piñera –the Harvard economist in charge of designing the new retirement plan- created a system of compulsory and individual savings. The basic idea was to substitute intergenerational solidarity for individual responsibility (PNUD 1998). Under the new legislation, workers were obliged to contribute 13% of their income to a personal savings account that would be administered by an AFP (Pension Fund Association), which would receive as gains 2% of these funds. AFPs administrate and invest these funds in order to make profit and augment the size of pensions. With the introduction of the reform, all new comers to labor markets were forced to move into the new system, while active workers were encouraged to move from the public to the private system.[29] According to the underlying principles that inspired the modernizations, it transferred the responsibility from the state and employers exclusively to workers, and the state´s role was confined to regulating the investment profiles of AFPs and acting as guarantor of last resort (Taylor 2006).[30]

3.1.4 Institutionalized Labor Flexibility

Among the victims of the modernizations of the 1980s, were also those institutions that had previously protected and strengthened *labor* in relation to *capital*. The amount of decree-laws that aimed at dismantling labor institutions and transforming labor relations in Chile was called the *Plan Laboral*

[29] Those who made important contributions to the old system were allowed to stay there, and self-employed workers could choose contributing in either of them.

[30] Under this plan, the reform was meant to correct the distortions of the labor market and make labor cheaper for employers. As studies show, between the late 1960s and mid 1990s firms saw a drop from 40% of non-wage costs to a 3% (Haag 2002, cited in Taylor 2006).

(Labor Plan) (Muñoz 2008).[31] As Peter Winn (2004, 31) puts it, the *Plan Laboral* "was intended to definitively shift the balance of power in labor relations in favor of business and to weaken the workers and unions that formed the central political base of the left."

The reform disarticulated the highly unionized labor movement, which never returned to the pre-1973 levels of militancy and importance. In practice, the implementation of these new regulations determined that workers would no longer be able to organize themselves strongly enough to raise complaints over the benefits of economic growth.[32]

A second feature of the *Plan Laboral* was to assure flexibility and reduce the costs of labor. Under the new context of labor institutions, employers were able to unilaterally change work contracts in order to change work locations and descriptions. They would be able to fire workers without cause on thirty days´ notice or immediately by paying one month wage, while the severance payment was reduced from one month´s wage for every year worked to a maximum of five month´s payment (Winn 2004). This would change later on to a month´s wage for each year worked up to a maximum of eleven years.[33]

Due to several reasons, labor unions were unable to device a substantial labor reform after the return to democracy in 1990. Although some aspects of the Labor Code were modified throughout the nineties, crucial elements of the *Plan Laboral* remained untouched, such as wage decentralization, union competition (it allowed for competition among multiple bargaining groups inside individual firms), non-unionized bargaining, limitations on strike activity by replacing workers, and employer flexibility in setting working conditions and wages. Moreover, the minimum number of workers to create a union was 8, which excluded an important share of small enterprises, while workers with fixed-term contracts -which represented one fifth of wage-earners with contracts- were excluded from collective bargaining (Reinecke/Valenzuela 2012).

Furthermore, the current legislation allowed companies to develop more refined strategies to make labor relations more flexible. Processes of rationalization of labor have been documented, which in many

[31] It was in part an answer to the international pressure coming from actors such as the AFL-CIO, which in the sake of the persecution, murder, exile and imprisonment of union leaders, seriously threatened in 1978 with boycotting Chile´s exports. Sergio de Castro, one of the most influential Chicago boys leading the Planning Office, held in 1978 a meeting with the president of the AFL-CIO George Meaney. Coming back from Washington, the message was very clear: a new labor code was required if Pinochet´s regime wanted to prevent an international boycott.

[32] Unionization was made voluntary and a labor union needed at least 50% of workers´ approval to be formed; collective bargaining was possible only at the firm level; employers were allowed to hire substitutes during strikes, and bargaining processes would only benefit those workers that subscribed the bargaining agreement, limiting these benefits and creating division among workers (Gárate 2012).

[33] Moreover, they were able to pay apprentices less than the minimum wage and force workers to work twelve hours a day if the weekly working time did not exceed the legal maximum.

cases were translated into outsourcing, part-time work, subcontracting, flexible wage systems, workday extension and short-term contracts (Cárdenas 2012; Bravo 2003). Subcontracting, for instance, has been among the most extended outsourcing practices in the domain of labor relations since the mid-nineties, which in 2004 reached its peak where more than 50 percent of Chilean companies were subcontracting services from other companies (74.8% of big companies, and 58.5%, 47.9% and 38% for medium, small and micro-companies) (Echeverría 2010).[34]

Existing contracts also played a key role in making labor relations more flexible. Temporal contracts became one of the preferred formats of employers, since they were not subject to compensation when they expired and employers in practice renewed these contracts in order to prevent workers from accumulating years that could be eventually compensated for. As a result, for example, according to López (2008), only ten percent of workers had the right to receive compensation from the one million of yearly layoffs in Chile, and 65% of workers with fixed-term contracts in 2000 were fired and rehired in the same year. According to the last OECD Employment Outlook, Chile is the second country with highest proportions of employment that last less than twelve months among the OECD countries (29% behind the 31% of South Korea).[35] In a similar vein, big conglomerates such as department stores are able to fragment into different legal entities administering human resources, thus forcing workers to unionize and negotiate with employers at local store-level, rather than with the whole company (Reinecke/Valenzuela 2012).

Flexible labor and weak unions will be determinant factors in the *privatization of risk* by leaving workers´ families more exposed to the economic cycle,[36] while at the same time allowing companies to better adapt to the changing conditions of a more open economy. The aforementioned reforms had thus an obvious impact on the financial burden of households, especially due to rising costs in education and health services, as well as the association of their outputs –success and security- with the purchasing power of families. Furthermore, these institutions contributed to the perpetuation of inequality in a country that favors the accumulation of capital but excludes the big majority from participating in the benefits of growth.

3.2 Consuming Credit in times of Prosperity?

[34] After times of turmoil, subcontracting was regulated in 2006 and subcontracting declined30.5% in 2008 (Echeverría 2010)

[35] http://www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2014_empl_outlook-2014-en#page1

[36] Despite the sustained economic growth during the nineties, labor market volatilities (turnovers) have been very high. As Palacios (2006, 67) shows, during the nineties “Only a quater of workers held a job for 10 years, and most workers changed jobs every three years (Dirección del Trabajo 2002: 7)

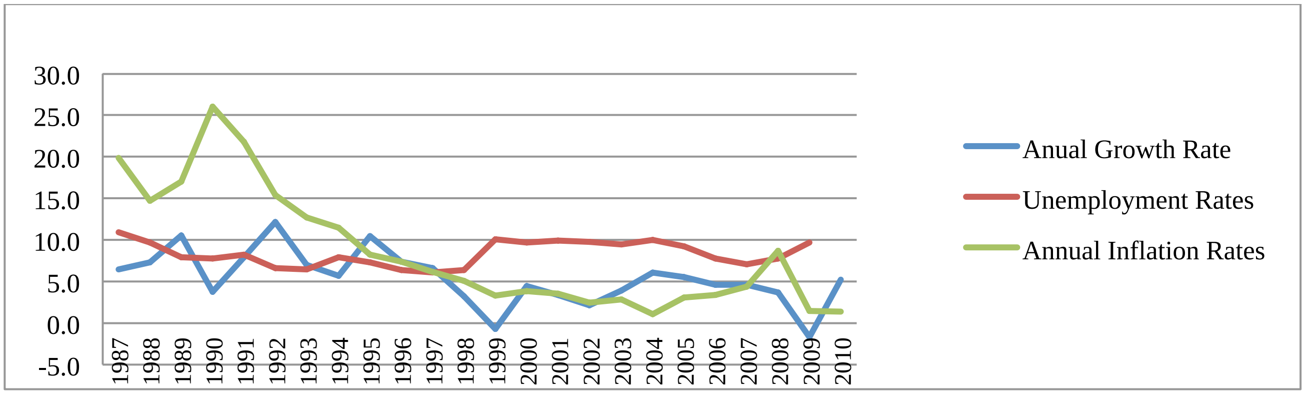
The second pillar of Privatized Keynesianism in Chile is economic growth and the material improvement that the Chilean society experienced throughout the decades where the market for consumer credit expanded. Growth will play a crucial role in two different ways: by creating the economic conditions for the market to expand, and ratcheting up the standards of living and aspirations of Chilean consumers.

In Chile, although credit cards existed since 1970´s and borrowing from local shops was a common practice among Chilean families,[37] the economic conditions that facilitated the rise of consumer lending in a large scale were only reached after a long period of experimentations and instability in the late 1980´s. As it was mentioned above, as a result of the less radical and more pragmatic approach to economic policies that followed the crisis of the early 1980s, 1985 inaugurated a period of growth of ten years. This growth was based on the utilization of idle capacity and employment recovery, reaching in 1988 the per-capita income levels of 1981, and increasing employment and GDP between 1983 and 1989 in 33 and 35 percent, respectively (De Gregorio/Cowan/Baytelman 1999). Moreover, the endemic problem of inflation was finally tamed from the 1990´s onwards with the creation of an independent Central Bank and the introduction of "Inflation targets", decreasing from 27.3% in 1990 to 4.7 in 1997 (Morandé/Noton 2004). As the chart below shows, this whole period where the market of consumer credit expanded (1987-2009) was marked by high annual growth rates, as well as decreasing inflation rates; an unprecedented stability in comparison with the last decades.

The stabilization of prices and interest rates played a crucial role in making consumer lending a viable business. Together with an improvement of the purchasing power of large segments of the population, rising employment levels, and better exchange conditions to import and sell goods at better prices, provided the basic conditions for people to acquire debts and department stores to sell their goods on credit (Moulian 2002).

[37] This is the practice of "pedir fiado", which is used to name the practice of buying groceries on credit in local shops. This way of selling groceries to neighbors has not been directly documented, but we can find the expression at least in the early twentieth century. This particular culture of borrowing to buy groceries is still something that needs further research.

Figure 5: Evolution of Different Economic Indicators, Chile 1987-2010



Source: Unemployment rates, INE (National Insitute of Statistics). Anual Growth Rate and Annual Inflation Rates, Central Bank of Chile.

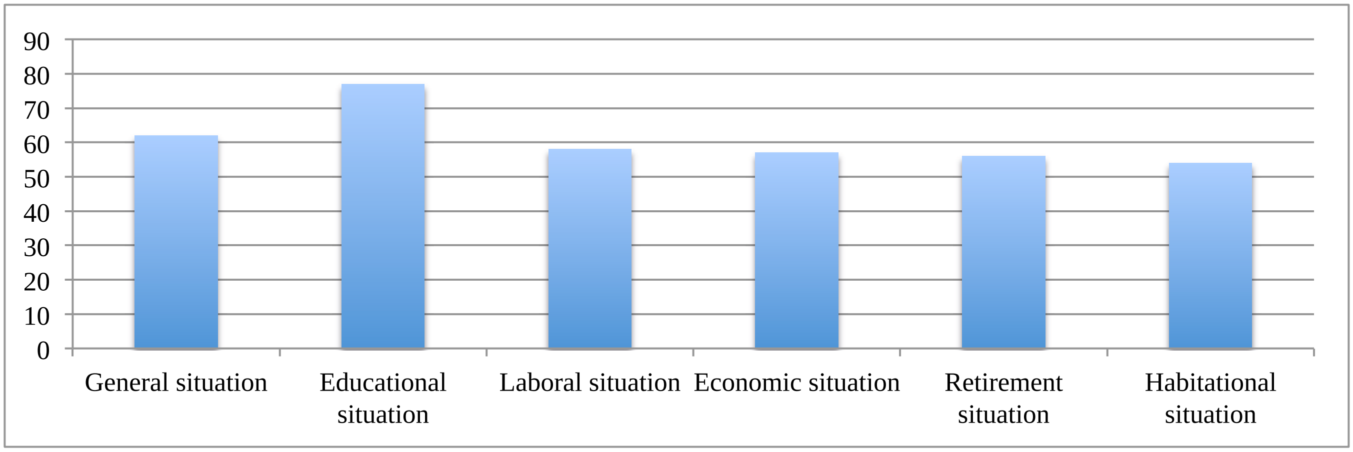
This leads us to one of the most striking features of the institutionalization of Privatized Keynesianism in Chile, which is that the expansion of consumer credit was not grounded on the deterioration of middle class that followed the post-Keynesian period in many capitalist democracies (Montgomerie 2009b; Streeck 2014; Frank 2007). It was rather consolidated in the context of a significant improvement in the standards of living of large segments of the population.

Taken the period under study altogether (1990-2014), the financialization of consumption took place in a context of important improvement. Between 1988 and 2012 Chile´s Gross National Income grew more than four times,[38] total poverty diminished from 38.6% in 1990 to 13.7% in 2006, while indigence (homelessness) declined from 13% to 3.2%.

Especially during the nineties, the financialization of consumption took place in a context of unprecedented growth. Between 1987 and 1997 the GDP grew at an average annual rate of 7.8 and the per-capita product at a 6.1 annual average rate; in 1997 the GDP was 91 percent higher than in 1986, and unemployment reached levels close to full employment (Tironi/Ariztía 2003). This created a particular atmosphere throughout the nineties that scholars baptized as a sort of “collective euphoria” (Tironi 1999; Martuccelli 2012a). By the second half of the decade, when seven millions of credit cards were circulating and families from the three-bottom income deciles were spending more than their incomes (according to the Household Budget Survey 1996/7), the majority of people perceived that their educational opportunities as well as their general situation were much better off than those of their parents´ (PNUD 1998).

[38] According to data from the World Bank, the increasing accumulation of household debt in Chile was accompanied by an increase in the percapita GNI, PPP from $3.320 in 1988 to 8.540 in 1998, and 20.450 in 2012

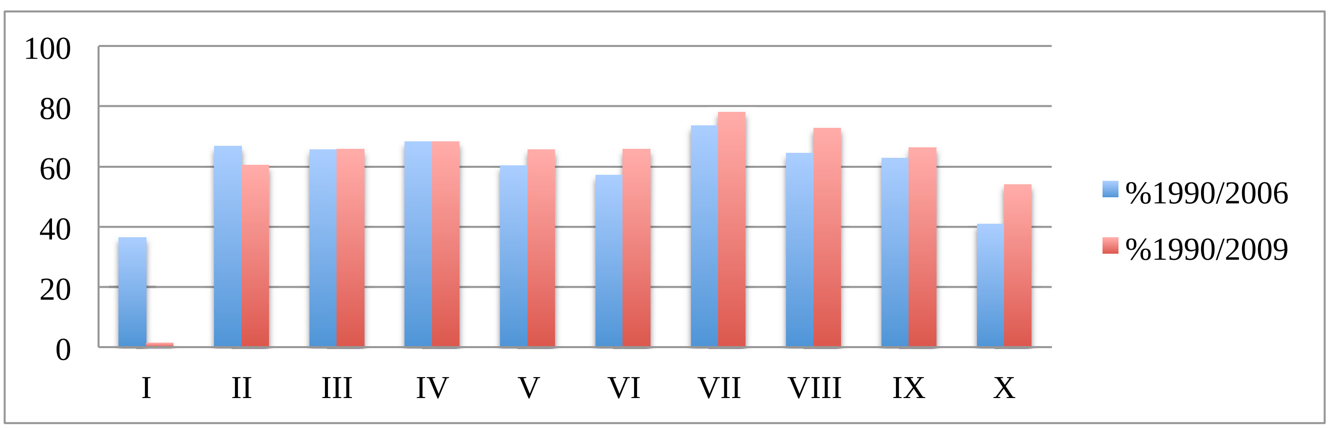
Figure 6: Perception of a Personal Situation that is Better-off than that of their Parents (percentage)



Source: Calculated from data taken from PNUD 1998

Of course, the increasing access to consumption that department store credit cards facilitated was due in part to this process, reflecting rising expectations as well as accelerating the process of material improvement. But leaving the role of credit aside, improvement was mainly driven by the rise in real wages and targeted social policies. For example, from 1990 to 2009 -with two important crises in between (1997 and 2007)- Chilean families increased their purchasing power considerably, to the extent that the average increase of real wages between the III and VII income deciles was 68,7% (Bazoret/Fierro 2011; León/Martínez 2007). By the same token, the minimum wage experienced an important growth between 1990 and 2006 that reached a 94.2% (Reinecke/Valenzuela 2012).

Figure 7: Percentage of Variation, Autonomous Household Income, periods 1990-2006 and 1990-2009 (Chilean pesos, November 2009)



Source: Data taken from Bazoret/Fierro (2011)

Intergenerational and individual upward social mobility, on the other hand, was in part possible due to an important expansion of education in all levels (Nuñez/Miranda 2009; Arellano 2011). For example, during the whole period 1990-2014 the schooling coverage education improved in considerable ways, especially among the poorer income quintiles (see table below). This had an important repercussion in the technification of the labor force, which gravitated less towards the industrial sector and more towards the service economy. In a context where the proportion of the labor force with secondary and post-secondary education increased three times between 1960 and 2000, the occupational structure witnessed an important growth in middle-level technicians and professionals from 5 to around 14 percent (Bravo 2003). The number of mid-level salaries grew from 550,000 in 1970 to 1,400,000 in 2000, basically reflecting a transition from the government-employment to the new private bureaucracies (León/Martínez 2001). In this sense, the financialization of consumption should be understood in the particular context of the emergence of new "middle classes", more educated (Nuñez/Miranda 2009), with higher purchasing power and whose social mobility trajectories would no longer rely on collective action but on the individual strategies of families.[39]

Summing up, the point that I want to make is that if Chilean families throughout these decades systematically used consumer credit in contexts of rising collective expectations, social mobility and rise in real wages, Privatized Keynesianism in Chile does not necessarily operate by replacing stagnant wages, but by expanding people´s consumption in times of general prosperity. To be clear, this does not contradict the Privatized Keynesianism hypothesis, but it means that if credit works as a social policy, it does it through more subtle and complex mechanisms than the *defensive consumption* postulated by most theories in political economy. The important question at this point takes some distance from traditional accounts in the political economy literature: If Chilean families seem to be better off than previous generations, what explains the gap between incomes and wants/needs that credit seems to close? So far evidence shows that rather than protecting lifestyles, consumer credits were mobilized as means to create and carry out life-projects. But if this is true, what was the role-played by the privatization of risk? To unravel these questions, one has to attend to the way in which the effects of growth and the privatization of risks are mediated by the last pillar of Privatized Keynesianism, inequality.

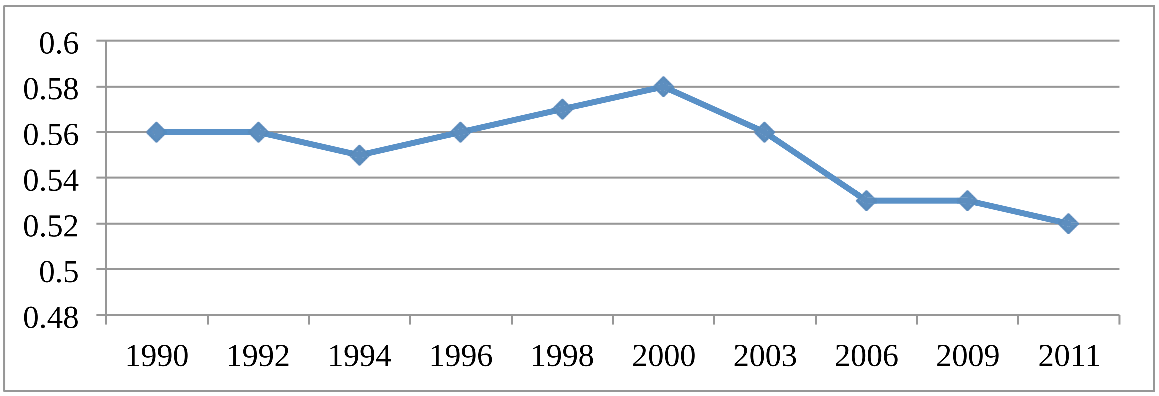
3.3 Structural Inequality and the Benefits of Growth

Growth had a huge impact on the Chilean population, who saw an increase in their real wages during the whole period under study. Nevertheless, although families across all income deciles benefited

[39] This is why these new middle classes in Chile are not necessarily coherently articulated as interests groups, but fragmented and highly heterogeneous. That is what Bazoret/Fierro (2011) called the transition from a society of "class struggle" to a society of "positioning struggles".

from general improvement, this was not necessarily related to an equal participation in the benefits of growth. As the chart below shows, the Gini coefficient in Chile presented small improvements between 1990 and 2011, but it has been persistently high during the whole period, to the point that in 2007 Chile occupied the twelfth position in the ranking of inequality among 128 countries (Solimano/Torche 2008). This means that the improvement of economic indicators that went hand in hand with economic growth and an increasing social expenditure from the 1990s onwards (proximate determinants of income distribution) scarcely changed the structure of income distribution (Larrañaga , O./Valenzuela, J. P. 2011). This led scholars to consistently point out that, unlike developmental theories predicted (especially Kuznets theory), inequality in Chile is a structural phenomenon (Contreras 1999; Contreras 2003; Contreras et al. 2005; Contreras/Corbalán/Redondo 2007; Neilson et al. 2008; Larrañaga/Herrera 2008; Larrañaga , O./Valenzuela, J. P. 2011).

Figure 8: Evolution Gini Coefficient, 1990-2011



Source: data from the Survey of Socio-economic Characterization, CASEN.

One way of understanding the structural character of the unequal distribution of incomes in Chile is by looking into the structure of different economic sectors and the relation between their productivity, incomes and employment creation. In this sense, scholars working under the paradigm developed by the Economic Commission for Latin America and the Caribbean (ECLAC) have argued that the *structural heterogeneity* of the Chilean economy, which is characterized by high imbalances between low, middle and high productive businesses, explains in part the unequal distribution of growth through the distribution of wages in highly segmented labor markets (Infante 2009b; Infante 2009a; Sunkel/Infante 2009). These imbalances have their roots in the specialization of the export sector of emerging countries in goods and services demanded by industrialized countries, creating increasing differences between a modern and old sector of the economy: big companies integrated into the dynamic sectors of the global economy, characterized by higher wages and professionalization, on the one hand; and another sector concentrated on the internal demand, less developed, productive and innovative, and more informal and paying lower wages, on the other (Infante 2009b; Infante 2009a). For example, most of production and consumption of the Chilean economy is concentrated on highly productive sectors (financial institutions, electricity, gas, water, and mining sector) and big companies (79,7% of the total production in 2003), but most employments are provided by middle and low productivity sectors (76,8%).

In aggregate terms, the productivity per worker in high performance sectors is fifteen times higher than those of low performance, which leads to wages six or five times lower among small and middle size businesses (Infante 2009a). The remunerations from small and middle size businesses (concentrated on the middle and low productivity sectors) correspond to the 20,7% and 15,% of the total amount of wages, which, in turn, represent a 72,5% and 63,% of their added value, respectively. This goes in line with the fact that most of the growth experienced in Chile favored highly-skilled workers rather than a big mass of employees that earn less than two minimum wages (more than half of Chilean workers according to Reinecke/Valenzuela (2011)). Indeed, between 1990 and 2006 high quality employments experienced an increase in the highly productive sectors, middle-quality employments contracted at all levels, and low quality increases considerably among smaller companies (Infante 2011).[40] Furthermore, the *structural heterogeneity* has augmented along with economic concentration. Between 1994 and 2003, for example, the share of big companies in total sales increased from 73% to 82%, while the share of middle and small size companies decreased from 23% to 15,5%, and 4% to 2,5%, respectively. This goes in line with the fact that an important part of the income distribution relates to huge differences between the tenth income decile and the rest of the population (Solimano/Torche 2008).

In general, the "heterogeneity" of the Chilean economy accounts for structural wage differentials between skilled and non-skilled workers. But another source of structural inequalities pointed out by scholars is represented by the imbalances between labor and capital that are reflected on the excessive concentration of property (especially in the banking sector, AFPs (Pension Fund Administrators), ISAPRES and the stock market) (Solimano/Pollack 2006),[41] as well as the impediments of workers to raise claims over the products of growth for the wake of a rise in their productivity levels (Durán 2011; Durán-Palma/Wilkinson/Korczynski 2005). This source of income inequality is better explained by the structural transformations of labor institutions carried out during the Pinochet era.

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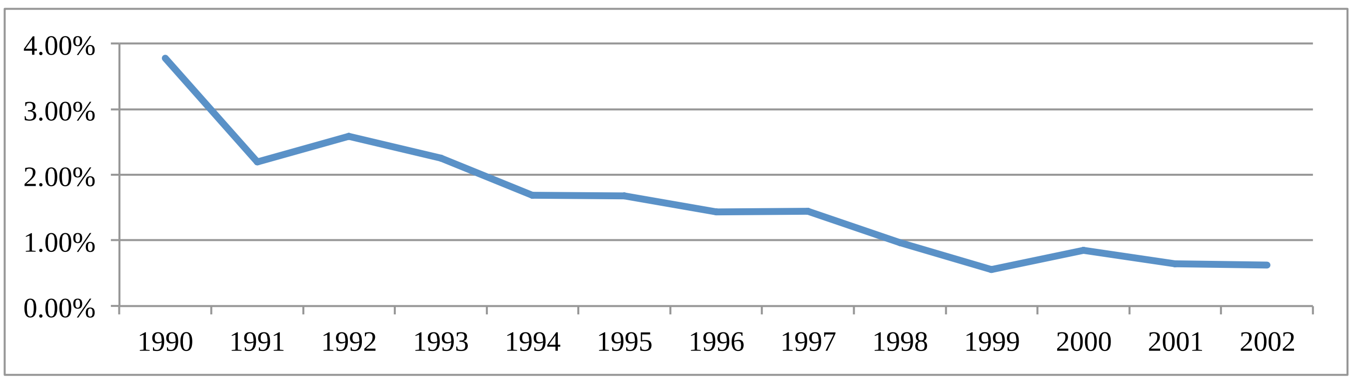
[40] According to Infante (2010), high quality employees are considered to have work contract, social security and remunerations higher than the average income of wage earners; medium-high quality employees lack either contract or social security, and perceive remunerations superior to medium incomes and fluctuate between median income and the average income of wage earners; medium-inferior quality employees are those workers that with or without work contract , perceive higher incomes 67% of the median income and inferior to the median income of wage-earners; finally, low quality employees are those that, with or without work contract, perceive incomes lower than 67% of the median income.

[41] For instance, 30 percent of the income of the richest income decile in 2003 came from property rents, which accounted for 95.5 percent of the total amount of that particular type of income (González 2008).

As I mentioned before, labor unions were dismantled and labor reforms encountered several obstacles to their organization. In general, the inability to change labor regulations has to do with the fact that while unions lost presence in the political scenario, business grew ideologically coherent, politically influential and organizationally united, being also able to block reforms that could have increased the costs of labor (Palacios 2006). The result was an institutionalized incapacity of Chilean wage-earners to effectively demand participation in the benefits of growth, as well as regain social rights and protect themselves from new forms of flexibility, exposure to the economic cycle and increasingly powerful economic groups.

Although militancy grew in the late 1980s, unions throughout the 1990s followed two main paths: they grew in numbers due to less restrictive conditions to create them (fragmentation); and militancy at the national level declined (Ensignia 2005). Indeed, the opinion that strikes were ineffective due to the decision of employers to replace workers was widespread among workers during the mid-nineties (Palacios 2006).

Figure 9: Percentage of Real Wage Readjustments in Total Collective Contracts, 1990-2002



Source: data from Palacios (2006)

Between the 1990s and early 2000s the labor unions´ bargaining power declined further and real wages adjustments from unions´ collective contracts decreased more than 80% between 1990 and 2002. In the period 1993–2004 the percentage of workers covered by collective bargaining contracts and the total number of contracts negotiated by labor unions fell in 33% and 20% (Palacios 2006). As a consequence, the results of collective bargaining processes also decreased (Fren-Davis 2002), having a direct impact on income distribution. According to estimations of Landerretche/Lillo/Puentes (2013), using panel data for the 2004-2009 period, unionization in Chile increased wages by 20 percent, having a higher impact among low-wages workers. Reinecke/Valenzuela (2011) find a similar result analyzing the 1994 Socio-economic Characterization Survey (CASEN), according to which unionization benefits more workers with lower educational levels than their non-unionized counterparts. This explains that even though between

1993 and 2004 the GDP grew 90.3% and employment grew 31.4%, real salary increases averaged only 36.1% (Riesco 2011a).

In general terms, both the transformations of labor institutions and the structural heterogeneity of the economy gave birth to specific distributive conflicts in Chile´s Privatized Keynesianism system, basically by leaving inequalities almost untouched during the last thirty years. In this sense, inequality not only helps us shed light into how the financialization of consumption relates to structural transformations, but also pushes us to think of the rising indebtedness from the perspective of the differentiated effects of both the *privatization of risk* and economic growth. To understand how this actually happens, one has to rely on sociological theories of consumption and class differentiation.

Summarizing, up to now I have sketched the foundational pillars of Privatized Keynesianism in Chile, the specific historical coordinates where the financialization of consumption should be located: economic growth, privatization of risk and inequality. Once we have outlined these historical and institutional foundations, it is possible to start thinking of it as a political economy system. In doing this, I will argue throughout the following chapters that inequality is at the core of the financialization of Chilean households by amplifying distributive conflicts and modulating the way in which growth and the privatization of risk will combine and trigger escalating processes of consumption and indebtedness. Before showing how these structural forces exactly shaped the financialization of consumption, I first move to the first level of explanation and assess how Privatized Keynesianism works as a political economy system in this particular context, and shows what the specific role of financialization is when explaining its functioning.

CHAPTER 4 MODERNIZATION THROUGH FINANCIALIZATION

If the financialization of consumption has something to do with the institutionalization of Privatized Keynesianism, it is because it makes the negative effects of inequality and the privatization of risks less salient or postpones them in due time. But what is the specific role of the financialization of Chilean families in this system?

In this chapter, I argue that the impacts of inequality and the privatization of risk were moderated not only by a rise in real wages but also by the financialization of Chilean households directly fostered by the state. Through demand subsidies and progressive financialization policies, Privatized Keynesianism in Chile made commodification processes viable by creating consumers for new markets. This resulted in a general improvement in the material conditions of the population characterized by expansion of education and housing coverage, which went hand in hand with a rise in real wages and persistent inequality. In this context, consumer credit fueled the economy and furthered the modernization process by integrating excluded social sectors into consumption, while at the same time made the uneven distribution of growth and the deficiencies of existing social policies less salient. This is why instead of replacing stagnant wages, the expansion of the market for consumer credit –and financialization at large- pushed forward and made the neoliberal modernization process viable.

The unintended consequences of these dynamics, however, were escalating mechanisms of "arms race" consumption and indebtedness that created new risks and undermined the legitimacy of the Chilean debt-fare capitalism. In this context the Chilean state will rely on the "politics of debt" and put an unacknowledged "social policy of forgiveness" at work that will serve as a valve to relieve the pressure born out of the illegitimate sources of some debts. In concrete terms, the politics of debts will become a crucial policy tool that the state will use to make the modernization process viable while at the same time concealing the contradictory principles of *social* and *market justice*.

4.1 THE CHILEAN DEBT-FARE CAPITALISM AND THE POLITICS OF DEBTS

The story of the Chilean "great transformation" has been told countless times. As depicted before, it starts with the overthrow of the first elected socialist president, Salvador Allende, and it is followed by the very first implementation of monetary theories undertaken by the Chicago boys that we now know as the "standard neoliberal package": trade and price liberalizations, privatization of state-owned enterprises, welfare state retrenchment resulting from fiscal austerity, dismantling of union power and commodification of public goods. Irrespective of whether it is told by historians, economists, political scientists or sociologists, they all agree that the embracement of a neoliberal regime is primarily a story of the creation and expansion of markets, commodification and the institutionalization of a "market society".

Such expansion has, of course, a corollary in many other spheres, such as a renewed entrepreneurial spirit, the consolidation of new globally oriented economic elites, the rise of a consumer-citizen, and the shrink of a state, to mention some. But the thread is always the same, a society that transits from a communitarian and state-led social system to another that embraces the market and its individualistic culture as its core principle of social organization; from a society organized under the principle of universal entitlements to another based on the individual effort; from *social* to *market* justice.

But the Privatized Keynesianism hypothesis makes us think differently, and draws attention to the relation between distributive conflicts and the social organization of debts in society at large. From from the point of view of Privatized Keynesianism, commodification and financialization are different but closely related phenomena. Since commodification processes require consumers to fuel the demand for new available goods and services, it is possible to understand the progressive financialization of Chilean households as a corollary of the creation of markets. In this sense, in parallel to the transformations previously mentioned, the inauguration of Privatized Keynesianism in Chile was only complete with the Chilean state playing a key role in creating consumers for new markets for education, housing and consumption. As it will be showed now, in these three spheres the Chilean state subsidized the demand by directly and indirectly ensuring the access of Chilean families to financial means. It is in this process where the *politics of debt* is revealed every time that the Chilean state either fosters financialization to make distributive conflicts less salient and make the modernization process viable; or manages the "forgiveness" and enforcement of these debts as a valve that relieves the state from social pressure. In this sense, the *politics of debts* is broader than a social policy in its most traditional sense of allocating resources, and it has also to do with the construction of social order.

This idea is not new at all. As anthropologists have consistently pointed out since Mauss, the asymmetrical character of debts is one of the foundational elements of social order. As Graeber (2011) has most recently shown, the political role of credit/debt relations stems from the fact that they underlie the moral foundations of society. According to his study, a social concern about the morality of debts has been going on for thousands of years, ranging from old religions to classic philosophy. Throughout these conversations about debts, there has been a constant encirclement between the idea of paying, forgiving or cancelling debts as a source of morality. At any point in history, Graeber says, debts are morally endorsed by the idea that they have to be paid, but at the same time, lenders are usually conceived of as evils, so morality also seems to stem from the fact that debts can be forgiven. This ambivalence has manifested throughout history in different forms, being, for example, the charge of usury among the most evident tensions in Western civilization (Nelson 1969). It is in this sense that governors throughout history have consistently made use of –what one can call- the *politics of debts* in order to prevent revolts, maintain the status quo or legitimate their power.

Hence, from Graber´s perspective one could even argue that the state does not only have the monopoly over violence (as Weber puts it), but also reaffirms its symbolic power in the capacity of determining who has *too much* or *too little* debt; who deserves *forgiveness*, and what debts should be *enforced*. This is the particular meaning that I confer upon the *politics of debt* throughout this chapter. Rather than merely stressing its policy role, *the politics of* debts is meant to stress the strategic management/utilization of the underlying credit/debt relations between borrowers and lenders to solve distributive conflicts. In this sense, the *politics of debts* also includes the mobilization, organization and actions of lenders and debtors that seek to raise concerns about the legitimacy of existing debts.

In this chapter, I seek to provide the political foundations of consumer lending in Chile. With this aim in mind, I look at the financialization of Chilean households from the perspective of the *politics of* debts. The chapter has three main parts. The first section outlines the subsidiarity principle that will underlie Chile´s financialization policies in the fields of education and housing. The second and third sections will describe how the progressive financialization of education and housing fostered Chile´s modernization process, while at the same time created new risks and distributive conflicts that were dealt with specific "politics of debts". Then, in the next chapter, I will move on and look into how in this context consumer credit worked as an unacknowledged *policy tool* that rather than helping people smooth their consumption, made income inequality less remarkable by expanding their incomes and allowing families to participate in the benefits of Chilean modernization. In this story, lack of regulations and low wages were exploited by department stores, which managed to promote their sales by creating consumers in a context of low wages but high expectations of participation in the benefits of growth.

4.1.1 The Subsidiarity Principle

The *privatization of risks* and the progressive financialization of households went hand in hand with the development of a new way for fighting poverty, and social policies aimed at preventing the politicization of a pauperized population that suffered the effects of austerity policies during the military dictatorship (Taylor 2006). The new style of social policy implemented by the *Chicago Boys* was meant to make a strong contrast with the distributive dynamics of previous decades, where distributional conflicts were settled by the state and intermediate interest groups, mainly unions and professional associations. Already diminished social benefits were no longer universal social entitlements (such as health, education and housing during Allende´s government) or benefits distributed according to the ability of different political sectors to mobilize their particular interests (Moulian 2002). Following technocratic principles that aimed at preventing any sort of political conflict, social spending would be rather subjected to rational scrutiny and technical procedures implemented by the technocrats of the new administration (Gárate 2012). Social benefits would now target resources exclusively for those considered not able to provide their own livelihood. Such institutional transformations, as well as all reforms oriented to establishing the market system in the Chilean society, came from the team of economists formed in the Chicago School of Economics. These were paradoxically brought into the "Planning Office" (ODEPLAN) in 1974 for the specific purpose of tackling "economic front". Thus, the Planning Office created by the government of Eduardo Frei Montalva in 1967 to coordinate national economic policies became the main operation center of the reformers, where economists from the Catholic University with strong inclination towards the monetarist orthodoxy were successively recruited (Gárate 2012).

With the aim of focusing social benefits on the poorest segments of the population, the economists of the Planning Office created a new device that would boost social policies, the "Ficha Cas". The "Ficha Cas" is a compound index constructed from a survey implemented by municipalities along the country in order to sort households according to their economic conditions. Following restrictive criteria, the "Ficha Cas" delineated new boundaries between the poor and the non-poor in order to efficiently allocate state resources. This gave birth to the so-called "subsidiarity principle" that was institutionalized along with structural transformations, and nowadays one of the main legacies of Chile´s neoliberal growth model. The principle of "subsidiarity" established that the state would only cover the demand for social services where private enterprises would not find enough incentives to do so, or organize the provision of those goods and services for those that could not afford to buy them on the market. The subsidiary logic of social policies meant a shift from supporting the supply of social services via price subsidies and direct provision to the implementation of demand subsidies or "vouchers" (Torche 2000).

This newly and strongly focalized way of allocating social spending became, in practice, the fundamental principle underlying social policies during the last three decades. The key formula to advancing a modernization process, however, was to explicitly combine *subsidies* with financialization policies in order to create a demand for new markets. This formula worked nowhere better than in the spheres of education and housing.

4.1.2 The Financialization of Education

It was already mentioned that the educational reform forced both public and private universities to charge high fees to their students. In expanding educational coverage, the financialization of higher education in Chile underwent a progressive privatization from the state as the main creditor subsidizing the demand to a system that relied on the intermediation of banks as the main creditors and the state.

The new educational system created in 1981 was first funded by private spending and governmental subsidies. Existing subsidies were divided into a direct fiscal contribution (AFD) and an indirect fiscal contribution (AFI). While the former was distributed among public and "traditional" private institutions (designating those universities that existed previous to the reforms), the latter was distributed among all higher education in proportion to the distribution of students that obtained the highest scores at the national university selection test (Prueba de Actitud Académica, now known as Prueba de Selección Universitaria). [42] Besides the subsidies, the government created the "University Fiscal Credit" (Crédito Fiscal Universitario) in 1981, which was meant to be paid-off in 10 or 15 installments, at an annual interest rate of 1%.

Later in 1987, the government introduced a new mode of financing higher education (Law 18.591), according to which universities would administrate the so called "University Credit Fund" (Fondo de Crédito Universitario), distributed according to the socio-economic background of students (Cariceo 2012). However, although these credits helped promote access to higher education for students from the bottom of the income distribution, the system faced many problems, basically because students scarcely paid off their debts and created important deficits for new budgets. This led the government to reassess its *financialization* policies, and introduce in 1991 a law (Ley 19.083) that established the possibility of renegotiating debts and new benefits for those students willing to pay, such as reduction of interest rates and discounts for anticipated payments (Cariceo 2012). [43] This were the first adjustments of the *politics of debts* in the sphere of education

New modifications were introduced in 1994 (Ley 19.287) to the "University Fiscal Credit", now renamed "University Loan Solidary Fund" (Fondo Solidario de Crédito Universitario). This credit was issued by the state only for students of the so called "traditional universities" (25 universities that existed prior to the 1981 reform out of a total of 59) at a 2% annual interest rate that had to be repaid in installments that should not exceed 5% of gross income. These credits helped fuel the educational system and expand the coverage of higher education in significant ways. By 2011 the Solidary Credit funded around 30% of students from "traditional universities".

The further and definitive step towards the financialization of education, however, took place in 2005 with the creation of the Crédito con Aval del Estado (Government Guaranteed Loan). The new system would be administrated in a very different way, where the state becomes the warrantor of students´ debts and thus would provide the confidence for banks to lend money without taking real risks. In this case, this meant that the government only guaranteed access to student loans with apparently better

[42] These subsidies are distributed according to the best 27.500 scores on the selection tests.

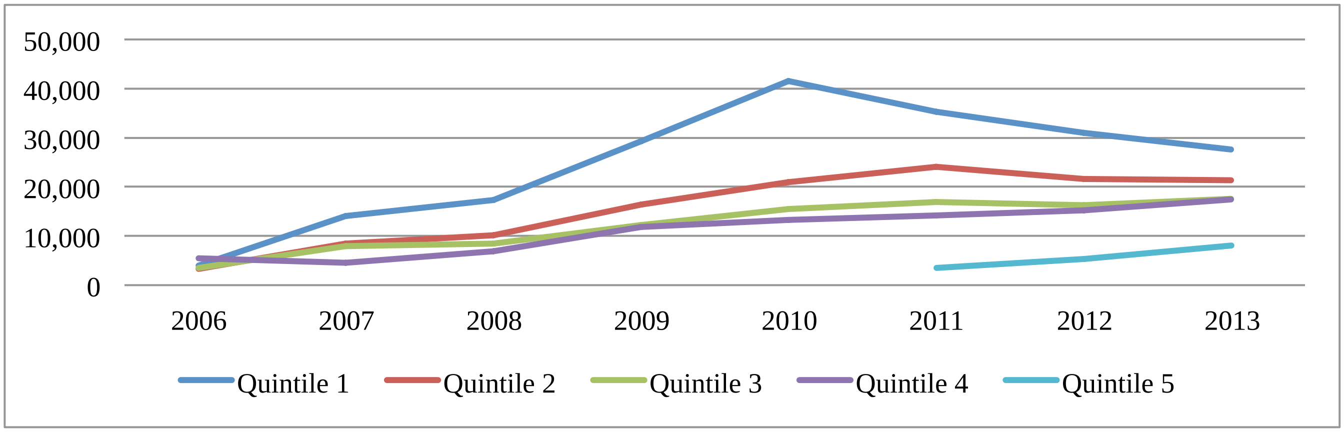
[43] As the successive politics of debts shows, educational debts in Chile have been apparently debts that "can be forgiven" or simply "not repaid". Trying to tackle the recollection problem, as well as the negative consequences for debtors, a new law was introduced in 2012 (Ley N° 20.572), which aimed at facilitating debt recollection and alleviating those in debt. It consisted of a condonation of penal interests for those that paid at least 50 percent of their educational debts. It also considered eliminating debtors from the black list of the credit bureau (DICOM), avoid judiciary costs, and special benefits for debtors that did not complete their studies. The benefits were available for debtors of *Crédito Fiscal Universitario* (Law N° 4 from 1981), *Crédito Universitario* (Law N° 18.591 from 1987) and *Crédito Solidario* (Law N° 19.287).

conditions, such as subsidized annual interest rates, flexible income requirements, the right to switch undergraduate programs and institutions, suspend payments for six months in case of unemployment, and that monthly installments should not be higher than 10% of income (if required by the debtor). But the students had to bear all the consequences of not paying their debts, which were potentially subject to seizure by banks.

This new wave of financialization aimed at making the access to finances a universal affair by expanding its beneficiaries also to non-traditional private institutions. This particular debt-policy had also the aim of solving the problem of debt collection by introducing a more experienced actor, banks. This was specially pressing since educational loans issued by the government were considered by the debtors as debts that "can be forgiven".

As the chart above shows, the financialization of education through government loans and later on the CAE, proved to be very efficient in expanding educational coverage by booming higher education. It made this expansion possible especially by allowing students from low and middle-income quintiles to have access to the university for the very first time. To mention a few figures, while in 1990 there were in Chile around 245.000 undergraduate students, enrollment in 2000 reached 436.000 and doubled by 2009 to 835.000. In 2005, around 64 percent of college new comers were first generations joining higher education (Arellano 2011).

Figure 10: Number of Recipients of CAE by Income Quintile 2006-2013



Source: data from Ingresa, available in http://portal.ingresa.cl/estadisticas-y-estudios/estadisticas/

This further financialization was seen as necessary because there was an increasing demand for higher education coming from the bottom income deciles, while at the same time prices had been steadily rising. As it is evidenced in the chart above, the first income quintiles benefited from the CAE in a bigger proportion that the other income groups, becoming the driving force of the boom of higher education. Moreover, the real demand for higher education among these groups might be understated by these figures since, as the table below shows, the share of households from the first income quintile that apply but do not receive the benefits is also higher than those from the second and third income quintiles.

Table 2: Share of Beneficiaries of CAE (Student Loan for Higher Education) from the Total Number of Applicants

	2006	2007	2008	2009	2010	2011	2012	2013
Quintile 1	16%	24%	24%	28%	31%	28%	27%	20%
Quintile 2	18%	31%	27%	31%	34%	31%	29%	21%
Quintile 3	21%	30%	29%	32%	37%	32%	31%	22%
Quintile 4	28%	16%	25%	33%	36%	34%	35%	24%
Quintile 5	40%	0%	0%	0%	0%	12%	19%	18%

Source: data from Ingresa, available in http://portal.ingresa.cl/estadisticas-y-estudios/estadisticas/

The success of the expansion of higher education carried out through financial means pushed the modernization project forward and made income inequalities less evident by letting poorer families send their children to college for the very first time (and it also made colleges a profitable business). But this financialization policy was soon called into question in two fronts: it was fostering banks' profits in detriment of students, and reproducing existing inequalities in new ways.

Indeed, the financialization of education through the CAE proved to be not only a means of modernization by successfully integrating students into higher education- at least in numbers, but it was also a very profitable business for banks. If in the first year of its implementation the share of beneficiaries (debtors) accounted for 11% of total student assistance and loans (21.317 of 192.611 beneficiary students), by 2009 it reached a 41% (149.455 of 364.971 beneficiary students). Nevertheless, one of the most important sources of profits for banks came not only from the pockets of low-income and indebted families, but also from the government.

Between 2006 and 2011, before the first generation of students with the CAE graduated, seven banks that participated as financial intermediaries obtained already 150 thousand million pesos from the Chilean government (around USD 310 million) (Guzmán/Riquelme 2011).[44] This was part of the design of the loan system, which stipulated that after participating in the CAE through a tender process, banks could sell these debts back to the government charging a *Recarga* (fee). This *Recarga* was a fee created to give banks an incentive to lend money to poor students without taking real risks, which banks had used in a scandalous way. Ultimately, the *Recarga* was the crucial clause of the *politics of debt* by turning students from low-income families into subjects of credit. Between 2006 and 2011, for instance, the amount assigned to pay for these fees in the budget for education multiplied 25 times, from 10.3 thousand million

[44] The average worth of the USD in 2011 was 483 Chilean pesos.

pesos (around USD 21 million) to 250 thousand million pesos (around USD 515 million). The higher fees charged for *Recarga* right after the financial crisis in 2009 reached around 70 percent of student loans. By 2014, estimations indicated that budget of the Ministry of Education would be 355 thousand million Chilean pesos (around USD 730 million) to buy student loan portfolios from banks (Figueroa 2013). These, on the other hand, selectively sold those credits of poorer students that –probably due to a lack of information and proper preparation- became indebted in low-quality private universities with the possibility of not receiving a good education and having less chances of being successful. After all, not all debts are "good debts" in the eyes of lenders.

With regard to students, the financialization of education displaced the problem of the commodification of education, but it soon proved to reproduce social inequalities, rather than diminishing them. The new system created two types of "defaults" (considered as being delayed at least in three installments): one that takes place when a debtor leaves the educational system and the other when the debtor graduates. By the end of 2010, the share of debts in default from those that dropped out reached 45%, while the share of debts in default among students that completed their studies reached 30%. These students (around 2,100), were the first recipients of the CAE in 2006 -2007 and their default rates are evenly distributed throughout all income quintiles (Bank 2011). (In any case, one can expect higher rates of default from next generations, since these borrowers were more concentrated among the lowest income groups).

In practice, CAE potentially works as a perverse mechanism that perpetuate the indebtedness of those students that are less prepared to study in the university and need longer periods of time to obtain a professional degree. In this sense, the unequal distribution of cultural capital at home is translated into failure and a bigger debt. These students, who represent a 45% of those that started studying in 2006, are to the CAE what minimum payers are to the market of credit cards: they meet the minimum academic level at the university and with this they perpetuate their own indebtedness; they are the "revolvers" of the educational system.

In this scenario, the politics of debts has been pushed to its limits for the sake of the student social movement that reached its peak in 2011. To be clear, student protests (the only in twenty years calling into question the foundational pillars of neoliberal Chile) were driven by much broader goals than the remission of debts, and vindicated a whole re-structuration of the educational system at both secondary and higher level. But the movement took the form of the *politics of debt* every time it raised claims over the immoral and illegitimate sources of educational debts.

Student movements started in 2006 when thousands of students aged between 15 and 18 went out into the streets and made the most massive demonstration in Chile since the return of democracy. The protests targeted particular benefits (transportation) and fees (university admission exam fee), but it soon targeted a constitutional law that was at the basis of the 1980s reform. This paved the way for the second wave of protests in 2011, which lasted seven months and whose convocation gathered more than 100,000 protesters in the streets of Santiago. This movement went further and claimed for defending the right to public education by demanding free education, the rejection of profit-seeking in education and elimination of school discriminatory practices (Bellei/Cabalin 2013).

Chile´s right-wing government rejected these demands and rather responded by tackling the issue of educational financing. The *politics of debts* was put at work as a means to relieve some pressure from the movement that had already deposed two Minister of education, while at the same time not changing the subsidiarity principle underlying the market organization.

In an attempt to harmonize demands for both *social* and *market* justice, the government created two benefits to alleviate the burden of debtors and diminish the pressure of the social movement: to decrease the interest rate that fluctuated between 5% and 6% to a 2%, and allowed students to repay their debts in installments that should not be higher than 10 percent of their income. Trying to tackle the collection problem, as well as the negative consequences for debtors, a new law was passed in 2012 (Ley N° 20.572), which aimed at facilitating debt collection and alleviating those in debt. It consisted of a remission of penal interests for those paying at least 50 percent of their educational debts. It also considered eliminating debtors from the black list of Credit Bureau (DICOM), avoiding judiciary costs and special benefits for debtors that did not complete their studies. The benefits were available for debtors of Crédito Fiscal Universitario (Law N° 4 from 1981), Crédito Universitario (Law N° 18.591 from 1987) and Crédito Solidario (Law N° 19.287). These lean benefits did not affect the profit margins of banks because the government paid for the difference.

However, these reforms proved to be insufficient for the rising student movement, which kept putting pressure until the presidential elections of 2013. In this new political scenario, voters inclined the balance towards the center-left coalition that this time promised to carry out radical structural transformations, instead of merely "buying time" with the traditional and delegitimized *politics of debts* implemented by the government.

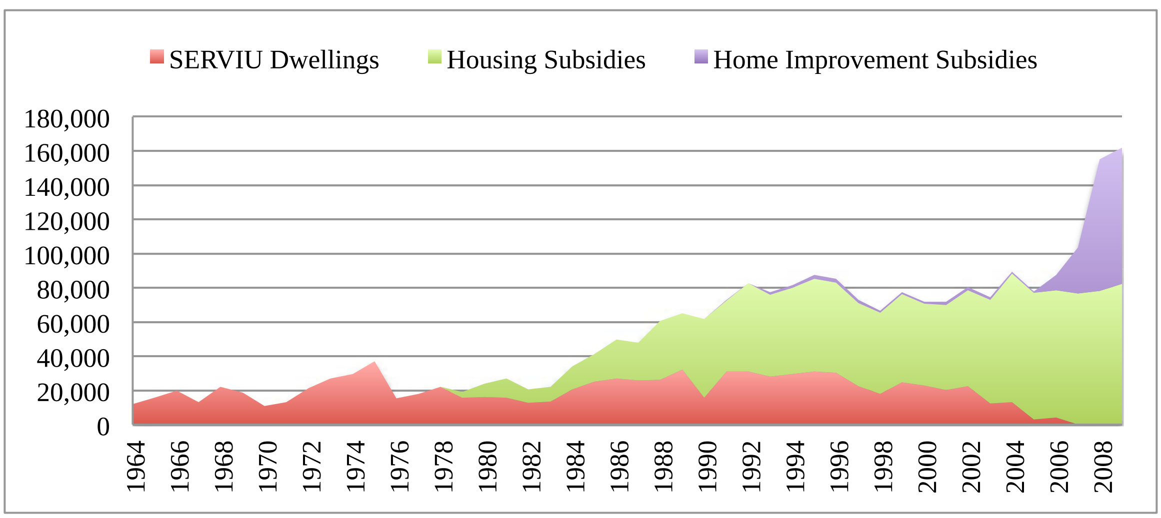
4.1.3 The Financialization of Housing Policies

Expenditures on housing policies, which in 1975 dropped to 61% compared to 1974, followed a similar path than other social policies in the 1980´s. Under Pinochet´s dictatorship homeownership was a right recognized by the state, but unlike previous decades, it was felt that it should be acquired with family savings. In this sense, the state would ensure and foster homeownership no longer by directly building and providing dwellings, but implementing a new policy mixing family savings, subsidies and housing loans (Torche 2000). The only exception was conceded to address the needs of the poorest by implementing a plan to relocate people living in very precarious conditions in occupied territories in "social dwelling units" with basic services as a way of providing an intermediary solution. The system, operating until now, was created in 1979 and its essence is based on a rational allocation of fiscal spending, as well as redistributing benefits by subsidizing the demand for housing in indirect relation with their value (Casgrain 2010). Housing policies since then consisted of progressively creating a private market for housing, and facilitating the access of families to sources of finance.

In this scenario, both subsidies and financialization policies were very successful in materializing the modernization project. With the return to democracy, the housing policies of the center-left coalition, referred to as *Concertación,* tackled the problem of dwelling deficit, which by the beginning of the nineties was calculated to be more than one million. In twenty years, housing policies (which prioritized the construction of dwelling units rather than their quality) reduced the housing deficit to around 543,000 units (Casgrain 2010). In the period 1983-2008, characterized by an average increase in the real product of 5.6%, Chile experienced an average construction of 106.000 new housing units per year.

From a broader perspective, it is possible to argue that the housing situation of the Chilean society dramatically changed during the last 40 years. According to Simian (2010), the housing stock grew between 1952 and 2002 at an annual average rate of 2.6%. In this period, the amount of housing units multiplied by a factor of 4.1, while the population grew at a rate of only 2.9. Although there are no existing data to account for the number square meters per person in Chile, there has been an important reduction in overcrowding.

Figure 11: Number of Finished Dwelling Units and Subsidies 1964-2009



Source: Data taken from "Observatorio Habitacional"

The key actors operating the housing market for "those in need" was the Ministry of Housing and

Urbanism (MINVU) created in 1965, and its regional agencies, SERVIU (Service of Housing and Urban Development). Although the underlying idea behind housing policies from the 1980´s onwards was to leave space for an active participation from the private sector, the state played a crucial role in creating the housing market and facilitating its functioning. Making believe the market for housing exists, SERVIUs undertook to organize the demand and subsidies, while loans were issued by both the MINVU and the "Banco del Estado" (Government Bank) (Gilbert 2003; Casgrain 2010).

A precondition to purchase housing units with the help of state-subsidies is to sign a "savings contract" with a financial institution, which, in practice, operated also as a policy to expand banking operations. All these subsidies are directly given to the buyer only once, and the acquisition is materialized by adding up people´s initial savings, a progressive subsidy, and housing loans that were first issued by the state and later on by banks in the 2000´s.

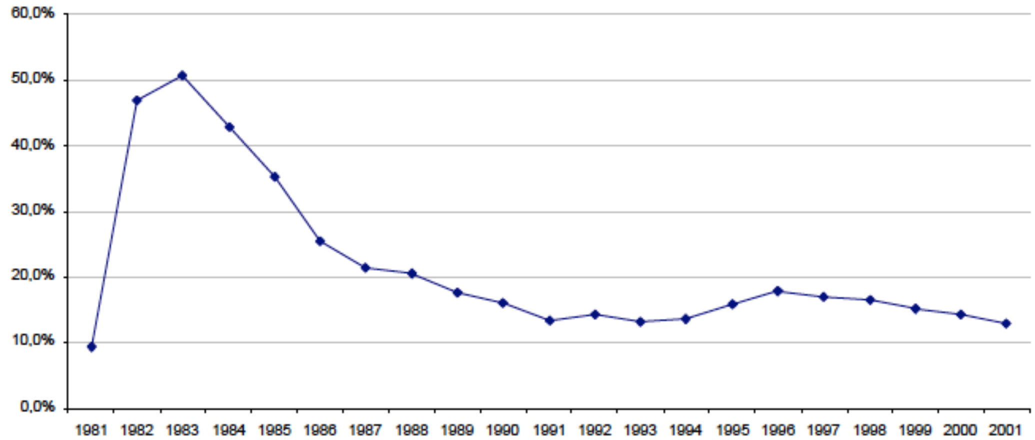
There were four types of mortgages operating during the nineties. The first two were issued and administered by the Ministry of Housing and Urban Development through the subsidy programs "Viviendas Progresivas" and "Viviendas Básicas". The former was issued without interest rates for a maximum of eight years, and the latter was issued at an 8% annual interest rate for a maximum of 20 years. Through SERVIU agencies, the state subsidized more than 60% of dwelling units built in the 1990´s and more than 60% of those were constructed by the private sector and directly transferred from the state to their owners (Morandé/García 2004). In other programs ("Programa Especial para Trabajadores", "Subsidio Rural" and "Subsidio Unificado"), the Ministry guaranteed the concession of a mortgage credit issued by the Banco del Estado (Government Bank) for a period ranging between 12 and 20 years.

Other instruments created under Pinochet´s dictatorship were directly issued by banks and traded in secondary markets. The "Letras de Crédito Hipotecario" or "mortgage bonds" were instruments established in 1977, issued by banks in the form of securities, and usually bought by institutional investors (banks charge intermediation fees in these operations). These instruments were preferred by Pension Funds Administrators (AFPs), which were allowed to invest up to 50% of the fund value in mortgage bonds (Morandé/García 2004).[45] (This shows the connection between the accumulation of capital in the hands of pension funds, and financialization policies that strengthened the position of banks). Endorsable mortgage loans, on the other hand, allow banks to finance mortgages with their own resources and then transfer them to other financial institutions (mostly insurance companies) (Micco et al. 2012). By the 2000s, both mortgage bonds and mortgage loans represented more than 40 percent of total banks

[45] Although these types of credits were very appealing to financial institutions, since they are inflation-indexed and are easily tradable, they could be very dangerous for borrowers in times of economic turndown. That is why between the 1982-85 crisis, for instance, the state had to invest important sums to carry massive renegotiations with debtors; nowadays, there exists a Fund especially created to deal with gaps between remunerations and the consumer price index (González 2002).

investments in the housing system.

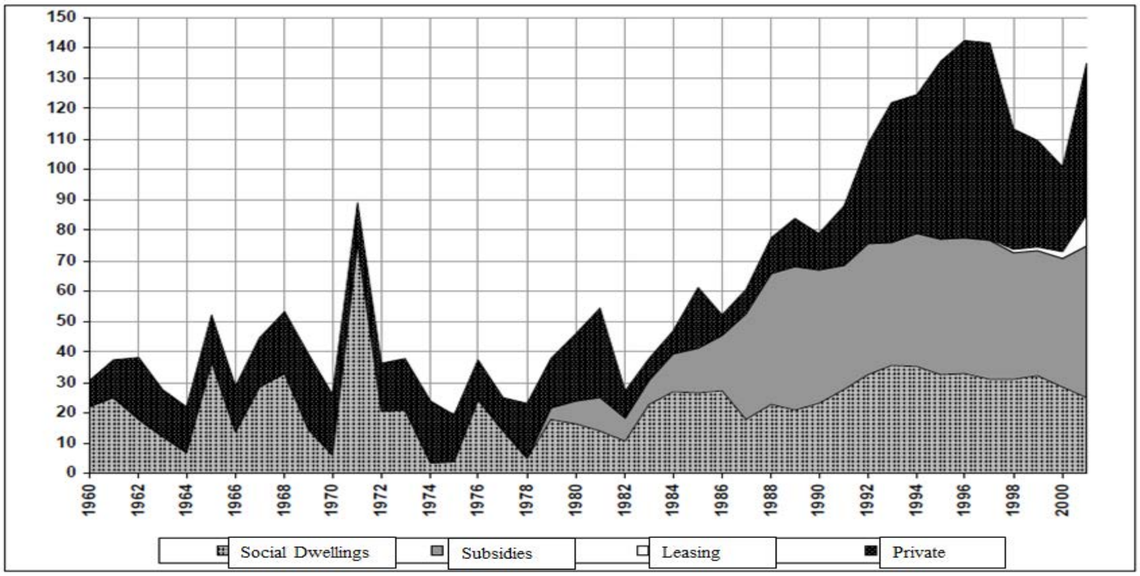
Figure 12: Investment in Mortgage Bonds as a share of AFPs´Assets, 1981-2001



Source: Data taken from Morandé/García (2004)

As a result of the housing policies based on savings, subsidies and credits, the number of dwelling units grew from 79,000 in 1990 to almost 143,000 in 1996. In parallel, the private sector started playing a more crucial role, representing 15% of the total production in 1990 to 45% in 1997 (although it declined to 28% in 2000 due to the economic crisis) (González 2002). Nevertheless, the government kept playing a crucial role in channeling resources to families to the extent that by the 2000´s two thirds of the dwelling units were supported by some sort of subsidy, which ranged from financing 8 and 10% of a dwelling unit, to 94% of its value in the most extreme cases. As the chart below shows, the numbers of "social dwelling units", i.e. built for families that were not able to acquire debts, were relatively steady throughout the period, while those with subsidies given to families able to acquire debts grew at a higher pace since the mid-1980´s.

Figure 13: **Evolution of Construction of Dwelling Units in Chile, 1960-2000**



Source: chart taken from González (2002).

This development provides additional information about the economic culture of Chilean families, which is that an important share of them has been consistently able to save some money in order to access to the "homeownership dream". Indeed, the government´s housing policy proved successful in promoting savings for families throughout the nineties, to the extent that in 2000 there were 1.8 million savings accounts, more than three times than in 1990 (González 2002), and by the end of 2010 the number of accounts earmarked for this special purpose rose to 3.36 million (Garcia et. Al 2013).[46] This means that the expansion of debts in other areas such as consumption does not necessarily relates with a culture of "immediacy" or lack of "savings culture", but most likely with the fact that those goods that are considered as "legitimate" but not priorities are not available in the present unless people use credit.

Although very successful in promoting homeownership, these financialization policies soon brought the *politics of debts* into the focus of political reforms. The expansion of homeownership through the support of government subsidies and credits became after some time one of the main obstacles for the efficiency of the system, especially because the number of non-paid loans escalated. Policy makers consider this as the "Achilles heel" of Chile´s housing policy, which is that the state has not been successful in enforcing the repayment of poorer debtors. In this sense, in 2000 –and after some renegotiations- more than 60% of the credits issued to non-eligible families by the financial system had at least three installment payment in arrears (González 2002). As the following table shows, by 2000 debtors

[46] According to González (2002), the average amounts of these savings accounts are relatively small, which indicates the important role played by low-income families.

that declared being delayed or not paying their mortgages were overwhelmingly concentrated on SERVIU debt portfolio.

Table 3: Are You Currently Paying your Mortgage? Socio-economic Characterization Survey 2000, (Metropolitan Region)

	SERVIU	State Bank	Private Banks
Is paying on time	66%	85.7%	96.1%
Is paying with some delay	30%	12.9%	3.5%
It is not paying	4%	1.4%	0.4%

Source: Data taken from Morandé/García (2004)

This problem was nothing new. Back in 1996 two senators sent a proposal to relieve debtors that acquired their houses in the early 1980s, claiming that "Hard situations due to external causes were affecting housing debtors. We estimate that 20% of debtors with the private system are under this condition and less than 50% of the SERVIU."[47]

To deal with these problems, the new administration in 2000 created a commission that in 2001 traced the so-called "New Housing Policy" (Nueva Política Habitacional). The housing policy in the 2000s thus experienced some reconfigurations that built on and furthered the existing housing model. Since the poorest households were not able to repay their mortgages and social demands to clear-off some of these debts were putting pressure on the political system, it became very clear that not all the population was "financializable". Thus, the government created two alternatives for the "un-financializable" that were targeted with the help of the Ficha-Cas.[48] At the same time, it switched its credit offer to those sectors that even though perceive low incomes, could be channeled through the banking sector under certain conditions. "Fondos Concursables", "Vivienda Dinámica Sin Deuda" and "Chile Barrio"[49] were the major programs targeting the poorest 20% of the population, indigents and "insolvent poor" (Casgrain

[47] "Situaciones difíciles por causas ajenas a su voluntad afectan a una parte de los deudores habitacionales. Estimamos que están en esta condición menos del 20% de los deudores del sector financiero y menos del 50% del sector Serviu." Montes and Sota, p 6.

[48] The government built a new index based on the *Ficha Cas*, the seize of the family, level of savings and seniority of applicants.

[49] "Chile Barrio" was among the most important programs launched by the government with the aim of erradicating poor settlements where the most striking levels of poverty were concentrated throughout the country.

2010; Morandé/García 2004).[50]

This represented a new stage in the financialization of housing policies, which aimed at subsidizing the lower income quintile without any type of loans, while offering mortgages to the middle - low income families at similar rates than those obtained by the middle-class with banking access. As with the market for higher education, however, the government had to ensure conditions attractive enough for banks to lend money to the poorer but still "financializable" population. In this spirit the government of Ricardo Lagos (2000-2006) took action to stimulate the secondary market for mortgages through securitization and creation of a default-insurance. The government committed to reimbursing the difference between the value of the insurance and the value of the foreclosure of dwelling units of low-income families. Navarro (2005) summarizes these benefits concisely:

· Subsidy for closing costs: A fixed amount between US$300 (if the housing unit cost is US$9,000 or less) and US$120 (for housing values up to US$18,000) is given to the bank for each loan granted to finance a subsidized house.

· Implicit subsidy: MINVU guarantees that the loan is sold in the secondary market at 100 percent of its face value. If that does not happen, MINVU pays the difference to the bank.

· Default insurance: In case of foreclosure, MINVU guarantees that the bank will recover the debt balance and the cost of legal proceedings. Contrary to FHA loans in the U.S., the foreclosure is executed by the issuer of the loan, not by MINVU.

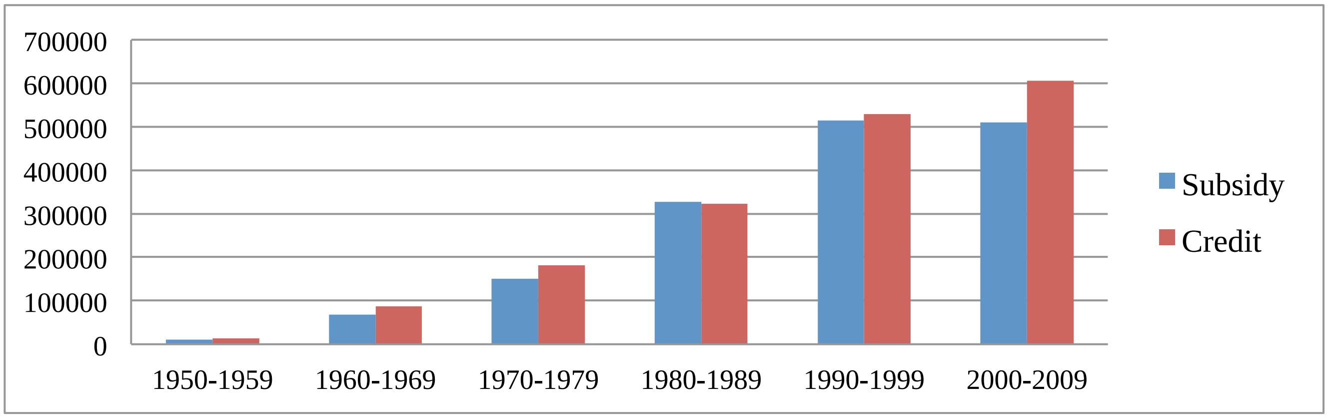
With these benefits, the conditions for lower income families to get a mortgage became simpler. New applicants should not be on the black list of Chile´s Credit Bureau and the amount of the mortgage should not be higher than 25% of their income; in case this condition is not met, the regulation allows for the intervention of a third party or co-debtor. The total debt to income ratio of the new applicants should not be higher than 55%, and these credits had to be insured against fire, unemployment, earthquake and disability (Jirón/Cortés 2004).

In general, scholars agree that the financialization of Chilean households has been possible due to the help of the government subsidy, which not only forces households to save some money in advance and thus reduce the asymmetries of information between lenders and borrowers, but also diminishes the amount of credit to be lent to riskier families. Indeed, the amount of loans required to buy these houses are

[50] Furthermore, the government implemented programs to equip social dwelling units with better services, such as multipurpose spaces, sports facilities and children´s gardens, among others.

relatively low (though they might become an important burden for the poorest families).[51]

Figure 14: Total Number of Families with Access to Housing Credit and Subsidies, 1950-2009

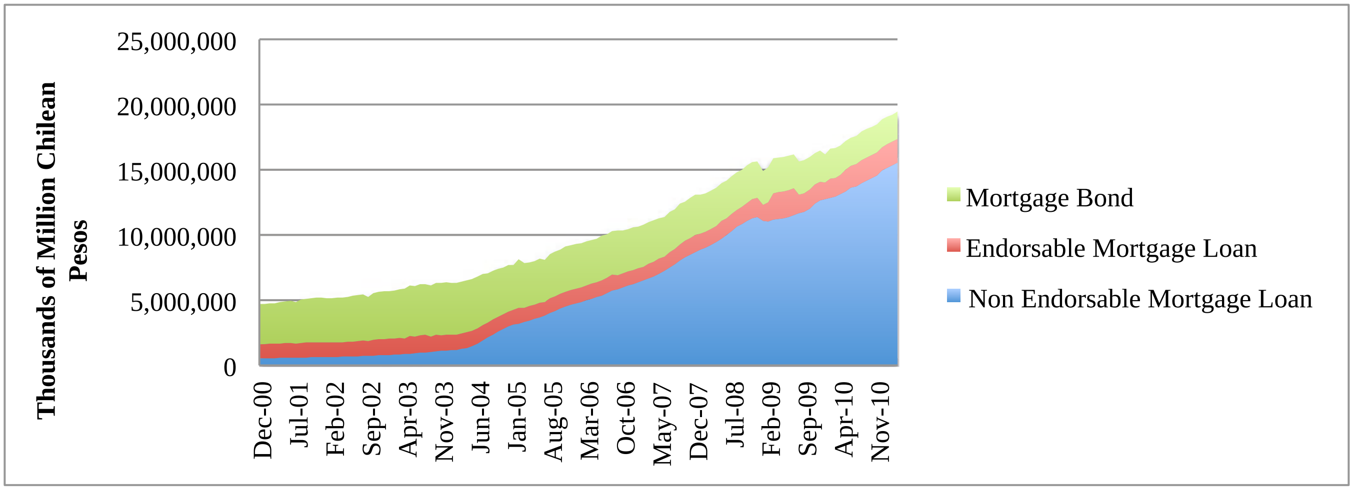


Source: Data taken from Garcia de Freizas/Magnabosco/Cunha (2013)

Accordingly, it is worth of note that between 1976 and 2009 slightly more than three million families bought a home, half of them with credit and 35% with both credit and a subsidy. Conversely, forty percent of them did not benefit from any program and more than seventy percent of families with access to credit received a subsidy, which reinforces the idea that having access to credit depends to an important extent on receiving the subsidy (Garcia de Freizas/Magnabosco/Cunha 2013). Furthermore, as a result of the New Housing Policy, banks experienced an important expansion of their mortgage portfolios, especially through non-endorsable mortgage loans.

[51] Finally, another change that consolidated in the 2006 administration was the creation of the Social Real Estate Management Entities (GEIS), which externalized the process of application to state subsidies. Thus, the Chilean government completed a new phase where it would no longer build dwelling units, nor would provide credit.

Figure 15: Evolution of Bank Mortgage Stocks, 2000-2010



Source: Data from Observatorio Habitacional

This is the context where a peculiar social movement re-emerged and called into question the legitimacy of the debt-led housing policy. Indebted families would demand the "forgiveness" of part of these debts for the sake of the increasing participation of the banking system in the "New Housing Policies".

In this scenario, intentional default among some homeowners came to play a crucial role in the "counter-politics of debts" of an emerging social movement that carried with it high impact performances.[52] Debtor movements already spread in the early 2000´s in the poorest neighborhoods where committees were formed to oppose resistance to foreclosures (Casgrain 2010). But their organizational peak was reached in 2004 when the movement formalized in a National Association, ANDHA Chile (National Association of Housing Rights). Since then, their manifestations range from busting on TV shows, breaking into presidential palace, pitching camp by the side of Mapocho river in Santiago, and disrupting in the government Bank offices, among others. One of the spokeswomen of the movement, Roxana Miranda, was even independent presidential candidate during the 2013 elections.

The "counter-politics of debts" undertaken by families that refused to pay government loans and demanded a relief of their debts, was indeed one of the reasons why the "New Housing Policy" of the 2000s shifted to a more focalized allocation of subsidies, as well as attempted to make the market appealing for banks. Banks not only have better experience in collecting debts, but since they do not operate under the logic of *social justice*, it is easy for them to enforce the payment of these loans without having to bear any political cost. Anyhow, this created more fear among many families, which saw in this shift towards the banking system a progressive abandonment of the state and reacted again by putting

[52] The group became very controvertial since the movement divided during the Bachelet administration (2006-2010).

pressure on the political system. After all, banks are “evil lenders” that unlike the state, are willing to seize one´s goods.

As usual, the politics of debts is very controversial. The dominant interpretation among policy makers and experts was that, as it happened in the field of education policy, the successive “politics of forgiveness” in the early nineties created a problem of moral hazard by fostering a culture of “non-payment”. This means that people progressively internalized the idea that government loans are debts that could be “forgiven” (González 2002; Micco et al. 2012; Casgrain 2010). As expected, families also learnt how to use these subsidies in strategic ways. As Casgrain (2010) has documented, some families even invested important sums of money to document their belongings to professional associations, which in turn would allow them to access better subsidies (especially the PET subsidy for formal middle level wage earners). This also had to do with the fact that the classification of applicants was also based on the information provided by families, which in many cases understated their socioeconomic situation in order to have access to better subsidies. By doing this, many families also acquired mortgages that they could not afford (CChC 2014). Nevertheless, from the perspective of families, there were important reasons explaining why mortgage debts that represent high shares of their incomes were not legitimate or should be forgiven.

To understand the fundamentals of these claims and the struggles over Chile´s housing policy it is important to keep in mind that homeownership is among the most pervasive aspirations of Chilean families, which not only represents an insurance in times of crises, but is a means to move out of poverty. This has been reinforced by the rise in homeownership rates, which already in 1992 were particularly high (80% according to Casgrain (2010)). Unlike other countries, where most of top earners and only a reduced portion of bottom-income families are homeowners (80 and 50 percent in the US and 70 and 30 percent in Germany), in Chile all income quintiles enjoy high levels of homeownership (table below).

Table 4: Share of Households by type of Home Property and Income Quintile, 2010

	I	II	III	IV	V
Own-Paid	62.7%	60.4%	59%	55.6%	48.2%
Own-Paying	5.2%	9.6%	9.8%	13.9%	20.1%
	67.9%	69.9%	68.8%	69.5%	68.3%
Rented with contract	3.3%	6%	8.2%	9.3%	14.9%
Rented without contract	5.6%	6%	6.1%	7.7%	6.3%

Source: Data taken from Simian (2010)

The central role of homeownership in the Chilean society was further fostered by the housing policy, which discriminated against the acquisition of second-hand houses and prevented the emergence of a secondary market for these dwellings (Simian 2010). Although this changed in 1996, there seems to be still an inertial residential immobility, since families tend to remain in these houses regardless of the life cycle and usually over-invest in them (Morandé/García 2004).

In this scenario, it is clear that Chilean families feel entitled to own their homes and raise political claims accordingly. Indeed, throughout the 1990s´ and 2000s the "counter-politics" of housing debts carried out by families took place in a context where the housing deficit already dropped to historical records, and the demands accordingly moved from claims over coverage to claims over quality. The expansion of homeownership, in fact, ratcheted up the standards of living of the population and homeownership was no longer the main goal to achieve but rather the starting point for many families. In this context, housing policies were progressively delegitimized along with the deficiencies of social dwellings that became evident throughout the years. Not only did the quality of the dwellings prove to be deficient in the winter of 1997, but also these dwellings became sub-urban neighborhoods that barely met the conditions of creating communities and fostering social integration, thus contributing to solving the problem of "having a roof" but reinforcing spatial segregation (Sabatini/Cáceres/Cerda 2001; Corvalán 2004). Throughout the years, this contributed to turning debts into an unbearable and illegitimate burden (Casgrain 2010). On the one hand, small debts became unbearable burdens for the sake of the vulnerable situation of low-income families that were exposed to the economic cycle and crossed the poverty line in both ways (Contreras et al. 2005).[53] On the other hand, the clear deficiencies of these dwellings and neighborhoods created the conditions for people to refuse paying some of their debts. In practice, debtors feel that it is more secure to default on credits issued by the government than banks, basically because the former cannot just simply seize these houses without paying a high political cost (Casgrain 2010).

Furthermore, the "New Housing Policy" in the 2000s also aimed at tackling the problem of residential immobility by implementing a *leasing* system to incentivize housing rentals, as well as allowing families to sell and acquire new dwellings before the five years-period stipulated by the former regulation. The problem with the *leasing* system, in practice, was that families paying monthly rents with expectations of becoming homeowners were disappointed every time they could not meet their obligations, and lost the right to claim the property they had been paying for years.

As a result, by 2008 the Chilean Senate counted 280 thousand families in default that owed money to SERVIU agencies, both private banks and SERVIUs, and debtors from the PET program (Casgrain 2010). For the sake of this pressure, the "New Housing Policy" did not prevent the Lagos and Bachelet administrations (2000-2006 and 2006-2010) from undertaking again "politics of debt alleviation" by means of forgiving some debts or providing some benefits for debtors. Between 2000 and 2011, at least 23 decree laws were passed to relieve the pressure exerted by social movements, whose protests still in 2014 called into question the financialization of the poorest.

[53] For example, in 2001 46% of poor households were not in this condition by 1996.

In 2011, the Chilean parliament designated a comission to discuss and propose a change in the regulation that would reduce the interest rates charged for loans smaller than 200 UF (USD 8,000 approximately) from around 54% annual interest rate to a maximum of 30%. Reactions towards the possibility of regulating what for the last thirty years was taken for granted soon appeared. The National Chamber of Commerce, Services and Turism warned in a document that “Those belonging to the lowest strata, the ones using credit cards as the main and indispensable form of payment, will be the most affected with changes to the TMC [Maximum Conventional Interest Rate]” (CNC 2012, p5).[54] As a solution, their proposal was that “To prevent consumption and sales from being affected, it is necessary to educate the population regarding the way they administer their debts, help them plan their payments and provide them with all the pertinent information at the moment of acquiring debts. If one lowers default rates then interes rates will decrease by their own weight…”[55] (CNC 2012, p. 6). One of the main concerns, of course, is that the exclusion of the lower-income groups from the financial system would push them to acquire these (necessary) credits with informal lenders or “loan sharks”.

Later on, after the law regulating interest rates was passed in 2012, comments circulating in the newspapers claimed that the apocaliptic prophecy preached by the financial industry had come true: poorer families were excluded from the financial system due to higher supply restrictions. This was reflected in the fact that during the last five years, the *informal debts* of Chilean households arose from 1,7% to 10%, among low and middle-income population (12,7% y 9,6% respectively). The consensus among analysts in the media was that regulations that lowered interest rates in 2012 caused distortions on the market by making the extension of credit more rigorous and excluding those households in the margins. As a result, families with poor financial situation and limited access to the financial system have been excluded from the formal sources of credit.

The problem seems to be evident and the main concern of analysts and regulators is the fact that the rise of informal debts shows the need for ensuring credit access to all Chilean families. In the end, this

[54] “Serán entonces los estratos más bajos, que usan estas tarjetas como fuente de financiamiento principal e indispensable, los que se verán amenazados con el cambio de la TMC”

[55] “Para que el consumo y las ventas no se vean afectados lo que necesitamos es educar a la población en cuanto a la manera de administrar sus deudas, ayudarlos a ordenarse en sus pagos y proveerlos de toda la información necesaria al minuto que toman la deuda. Si logramos disminuir la tasa de morosidad entonces las tasas bajarán por su propio peso ...”

reinforces the idea that good intentions driving regulations should be assessed against the background of the exclusion of households from the financial system, considered as a negative consequence per se.[56]

No matter if preached by politicians, media critics or experts, the picture that emerges from these public discussions has a main thread, which is that people´s reliance on credit to lead their lives is taken for granted and should be guaranteed as a social entitlement. As a result from this ideological conception of credit, the exclusion from the formal financial system to the fringe of informality has apparently nothing to do with the fact that the majority of Chilean workers earn less than two minimum wages, and that the richest income decile accumulates more than 40% of wealth. How did we get into that situation?

The answer is simple: consumer credit in Chile became de-facto one of the main driving force of Chilean modernization, allowing big shares of the population to participate in the “party of consumption” without solving the problem of structural inequality. In other words, consumer credit became a sort of “sacred” object in so far it performed a double function in Chile´s Privatized Keynesianist system: while it fostered and furthened the modernization project that materialized in the fields of housing and education, at the same time it prevented the problem of income inequality from becoming a source of instability. Unlike the cases of housing and education, however, the financialization of consumption was not undertaken by the government but by department stores. In this area, the government will play an indirect role by legitimating the financialization of low-income population on the part of unregulated department stores. To show how this was possible, I first take a look at the overall trends of consumption and the role played by department stores in creating new consumers.

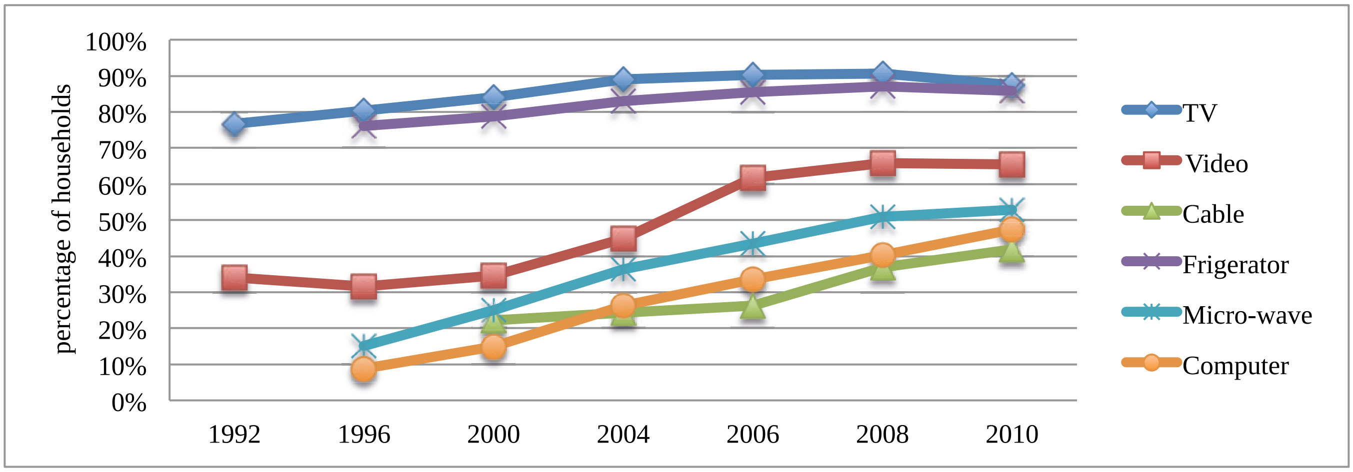
5.1 The Party of Consumption

In 1979 the Chilean government conducted a survey to evaluate a National Program of Complementary Nutrition (Programa Nacional de Alimentación Complementaria, PNAC), showing that among the two bottom income quintiles, 86% and 62% of families did not have what was considered as the household “standard package”. Not having the “standard package” meant not having either a color tv, a refrigerator, a washing machine, a dish washer or a vacuum cleaner (Torche 2002). By the early 1990s, this situation started to change dramatically. During the 1990s, Chilean families experienced a sustained expansion of their consumption, which changed the material conditions under which Chilean families would live. This was in part facilitated by economic growth, but also the consequence of the expansion of consumer lending. Chilean families were not only more educated and increasingly becoming homeowners,

[56] La Tercera, 27.01.2014. http://www.latercera.com/noticia/negocios/2014/01/655-562699-9-en-cinco-anos-deuda-informal-de-hogares-salto-de-17-a-10.shtml

but in spite of their lean salaries they would be able to buy home appliances, make improvements and decorate their new homes. Thanks to the progressive extension of small consumer credits to those in the middle and bottom of the income distribution, the Chilean modernization would also take place in the domain of consumption.

Figure 16: Evolution of Household with Durable Goods 1992-2010

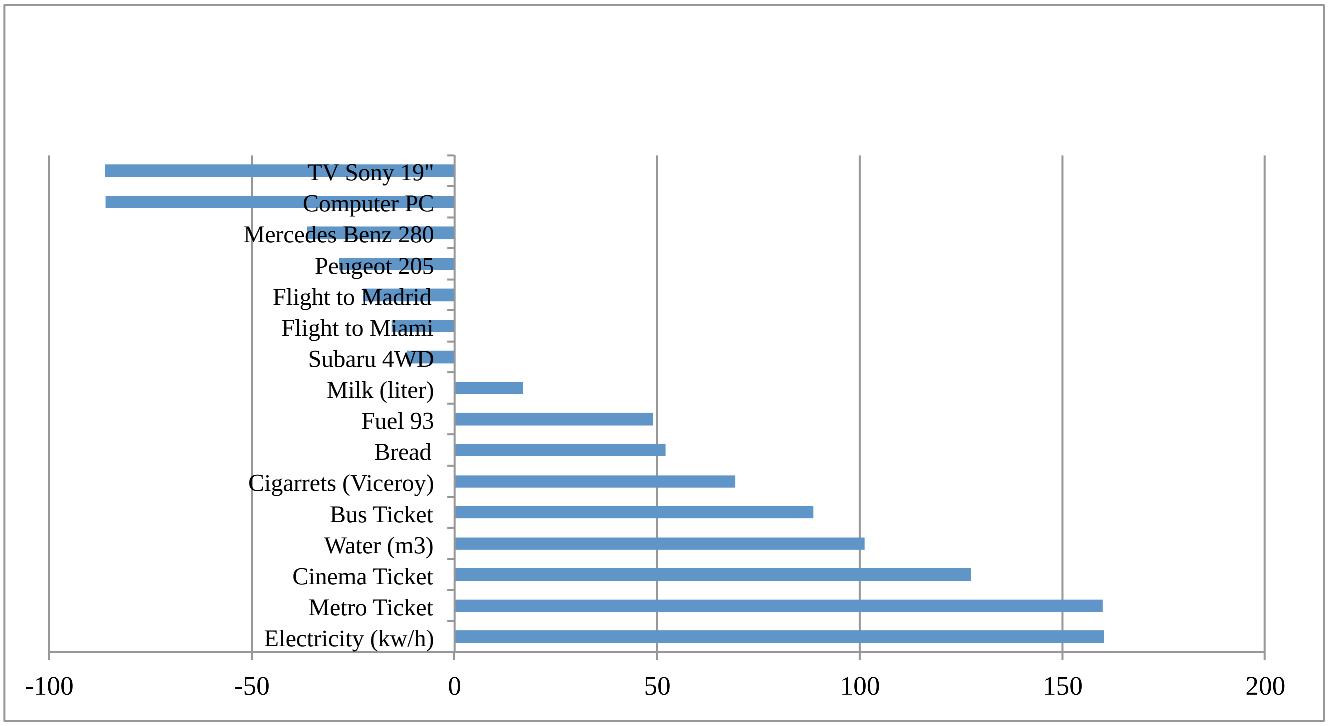


Fuente: Data taken from Ariztía/Agloni (2012)

As mentioned before, the expansion of consumption was also possible because Chile went through a process of trade openess since the mid 1970s, promoted by a reduction of import tariffs. As a result, the volume of commerce increased in 1970 from representing a 40% of the GDP to 60% in 1990 (De Gregorio/Cowan/Baytelman 1999). From the 1990s onwards, this policy took a new impulse by an active agenda that consisted of signing bi-lateral free-trade agreements that boosted the import sector and lowered the prices of durable goods (Fazio 2010). Department stores, on the other hand, were able to diminish the prices of their goods at a faster pace than the Consumer Price Index (CCS 2005).

These changes explain in part some of the changes in consumption patterns. Between 1987 and 2011, the prices of goods that became part of the standard package such as TVs and personal computers, for example, diminished around 80%, while the prices of both “luxury” and “normal” cars decreased in almost 40 and 30 percent. At the same time, the prices of expenditures considered to be more basic for families such as transportation (fuel and public transportation), electricity, milk, bread and water, saw an important rise in their prices that, as it will be shown, did not prevent families from all social strata from spending significantly more on other goods such as perfumes, jewelry and beauty products (PNUD 2002).

Figure 17: Variation (%) of Real Prices of Different Goods from May 1987 to May 2011

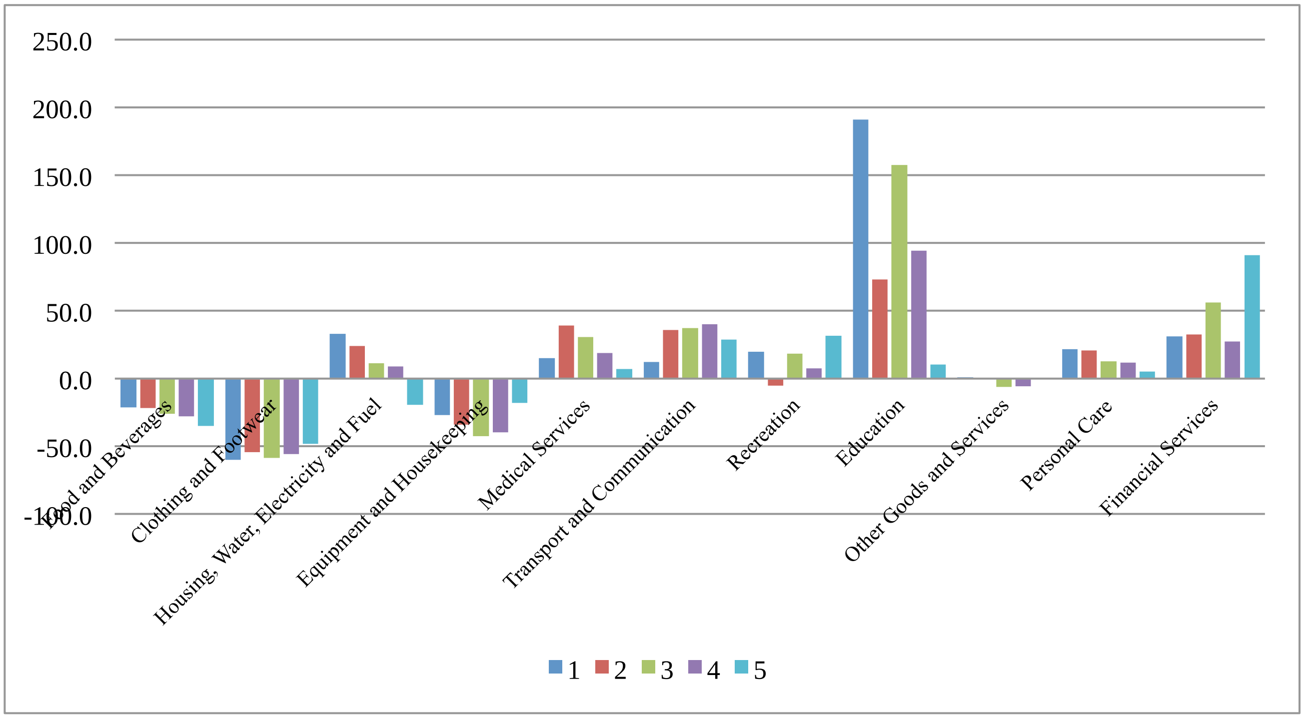


Source: Data taken from Méndez (2011)

Of course, not all income groups benefited from these changes. While TVs and later on in the 2000s computers were part of the standard package of families across the whole income distribution, more educated workers that profited from the growth of the nineties started buying better cars and enjoying vacation in Miami or Europe.

Analyzing the evolution of household budgets and expenditures, it becomes evident that consumption patterns and lifestyles of Chilean consumers have changed in substantial ways: on the one hand, in total terms Chilean families dine out more often than before; they travel abroad and "explore the country" during vacation (Tironi/Ariztía 2003). They are spending ten times more on personal care and beauty products, automobiles and technology. On the other hand, even though the prices of water, electricity and food rose, expenditures on these "basic items" represented a smaller share of the budget of Chilean families. In other words, this suggests the rise of a "consumer culture", and that "consumption standards" have been changing throughout the social structure into a more stylized pattern. As expected, this was also accompanied by an increase in the share of household budgets allocated to serve "financial services", i.e. debts.

Figure 18: Variation of Household Expenditures as a Share of Income by Income Quintiles, Gran Santiago 1996-2013



Source: Data taken from the Households´ Budgets Survey, different years.

There is no doubt that credit played a crucial role in boosting the "party of consumption" and changing expenditure patterns. But the crucial question this raises is to what extent such expansion was possible by the extension of consumer credit to all social strata? Framed in terms of political economy, how did consumer credit become an indirect *de facto* policy tool that made the problem of inequality less salient and how did it work in practice?

My answer to this question throghout the second part of the dissertation is the following: in a context where most families were better-off than their previous generations, but top earners were having access to new lifestyles at a faster pace than the rest of the population, department stores sought to capitalize on lack of regulations, rising expectations and inequality to boost their sales in unsuspected ways. This inequality, however, was less expressed in total terms as in the previous decades when the population over the poverty threshold was higher than 40%, but in the form of *relative deprivation* stemming from the fact that even though in real terms the minimum wage had considerably increased, more than half of Chilean workers in 2006 perceived incomes lower than two minimum wages.[57]

[57] For both 1990 and 2006, for example, the percentage of workers that earned under the monthly average income (of the main occupation) was higher than 70%, while only the richest received incomes above the national median (US $583 approximately,

Figure 19: Share of Households with Incomes under $250.000 Chilean pesos (approximately US $480 in 2008), 2006

Monetary Income (Autonomous Income + state subsidies)	33,2
Autonomous Income (Labor income + allowances, bonuses, rents, interest, as well as retirement, pensions and private transfers)	34,5
Labor Income (Income earned by main occupation, earnings from self-employment and self-provision of goods produced by the household)	41.8

Source: Data from Reinecke/Valenzuela (2011)

In part III I will further explore this line of reasoning by arguing that the "privatization of risks" and inequality deepened this process by a) pushing households to compete with each other in order to secure their positions, engaging in "arms race" for *positional* but inconspicuous goods, while at the same time b) creating "budget gaps" that would result from the attempts to secure their status in a very insecure and threatening context. Ultimately, this would leave many Chilean families with no other option than using consumer credit in order to catch up with more demanding standards of living and execute the life-projects they considered legitimate to pursue.

It is in this context of changing standards of living and high inequality that department stores progressively financialized Chilean consumers from all social strata; made them "feasible economic consumers" (Ossandón 2013); converted consumer credit into an indirect policy tool that made the problem of structural inequality less salient; and became a fundamental pillar of the Chilean modernization process. In the next two sections of this chapter, my intention is to pave the way for developing this line of argument by showing that i) department stores took advantage of particular junctures and made important efforts to boost their own sales by financializing Chilean consumers; and that ii) these types of credit have been helping expand the incomes of these consumers in times of positive expectations, rather than only help them cope with instability.

5.2 The Financialization of the Chilean Consumer

values of 2006). As a matter of fact, by 2006, when the market for consumer credit was at its peak, 63.1% of female and 48.5% male workers fell into this category.

The fact that sellers financialize the population in order to sell goods is hardly a historical novelty. It is characteristic of the expansion of installment credit throughout the first half of the twentieth century in Europe, America and Asia. Sellers of durable goods such as sewing machines in Japan (Gordon 2012), cars and home appliances in the US (Hyman 2013; Carruthers 2010), and clothing and footwear in the first department stores in France (Trumbull 2014), systematically issued installment credit as a way of selling their own goods in more massive ways during the first half of the twentieth century. The novelty, however, is that, unlike those previous experiences, department stores in Chile relied on relatively new risk-based pricing techniques and credit card technologies developed in the banking sector in order to financialize sub-prime consumers. Furthermore, the expansion of credit by means of these financial innovations was not directly supported and promoted by the state as a social entitlement as in the US (Calder 1999; Calder 2012; Logeman 2012; Carruthers/Ariovich 2010), but resulted from a lack of regulation that allowed them to charge the high interest rates necessary to make the business work in a context of low wages. Both financial innovations and lack of regulations made of consumer credit an implicit social policy, whose importance for the Chilean consumer would be taken for granted and would be hard to change throughout the years.

How did the market for consumer credit emerge in Chile? As economic sociologists have shown, the emergence of a modern market for consumer credit cannot be taken for granted because it entails important efforts to solve very specific *coordination* problems. Markets for consumer credit require an important *cognitive infrastructure* that allows lenders to frame the behavior of prospective borrowers (Guseva/Rona-Tas 2001; Rona-Tas 2009; Róna-Tas/Guseva 2014; Róna-Tas/Hiß 2010). In contemporary capitalism, there are complex networks of actors that trace and circulate information on consumers, being "credit bureaus" the most specialized organizations in gathering and distributing information on the financial behavior of consumers. Once this information is available to lenders and there is a market for it, financial institutions can lend money at a large scale by developing techniques *of risk management.* These techniques allow lenders to *dissembed* the process of framing consumers from their networks and face-to-face relations, and rely on automatic and rational calculations that sort the risk of borrowers in efficient ways (Guseva/Rona-Tas 2001). In the field of consumer lending, this is done, for example, with the calculation of the *Fico Score,* which estimates the probabilities of default of borrowers by taking into consideration their past behavior (Marron 2006; Marron 2009). Nowadays, this score and other models to classify risk are being constantly improved with the work of data miners, and the incorporation of new inputs, such as socio-demographics and other relevant information that companies acquire through private and public sources.

Of course, characterizing how this market emerged in Chile from an organizational point of view would deviate us too much from our main goals, but we still have to sketch the main features of the market to understand what the financialization of consumption in Chile is about. In particular, the role played by department stores in "financializing" consumers deserves closer attention.

5.2.1 The Irruption of Department Stores

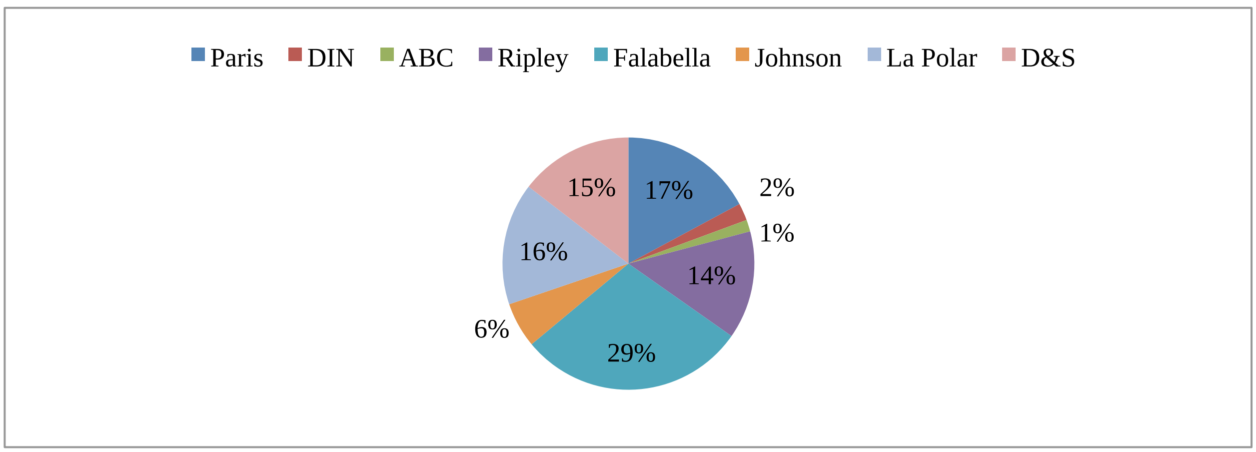
Department stores have a long tradition in Chile and the history of some of them and their owners goes back to the late XIX century. Falabella, for example, the leading credit card issuer in Chile (administered by CMR Falabella), began as a tailoring shop in 1889 in the downtown section of Santiago, which only hundred years later -in the 1980s- started selling home appliances. In a similar vein, Paris (now Cencosud holding) started as a furniture shop located in the center of Santiago in 1900, expanding the business to electronics and clothing only in the second half of the twentieth century, and issuing their first credit card in the late 1970s. Today, Cencosud is the second biggest issuer of credit cards in Chile, after Falabella. Finally, the third biggest department store, Ripley, was founded in the mid-1960s as a garment shop, which in 1993 became the first retailer within a shopping mall. Although its expansion took-off following the paths of Falabella and Paris, it managed to break through the fierce competition and became one of the biggest department stores in Chile.

Nowadays, these stores are modern companies. Already in the middle of their "boom" in the nineties, both Falabella and Cencosud opened their business to the stock market in 1996 (they would be no longer family companies), followed by Ripley in 2005. This boosted their investments and prompted their internationalization into other South American countries. Currently, these department stores in Chile operate now as conglomerates of companies that own banks, supermarkets, insurance companies, travel agencies and home improvement stores, a business model known as "multi-channel retailing". With this business model, Falabella nowadays makes profits over USD 5.000 million in 1.42 square kilometers (Ortega/Soto 2011). According to Ossandón (2013, p. 9), Falabella´ credit card "… represents 43% of the store cards' transactions and 38% of their monetary worth, while 17% – of both transaction and value – corresponds to Cencosud's cards."

A second generation of department stores, better known as "multitiendas", consolidated in the 1990s and led the financialization of lower income groups. The specific niche for these department stores is known in marketing classifications as "poor" or low socioeconomic group, according to the classification system implemented in Chile by the Association of Marketing Research (AIM). Under this classification, this group represents 35% of households, whose incomes range between the first three income deciles, are vulnerable to fall under the poverty threshold, and are more exposed to the economic cycle (Rasse/Salcedo/Pardo 2009).[58] Although they are defined as "poor" (which coincided in 1987 with the share of the population under the poverty threshold), these families now moved out of the poverty threshold and have purchasing power, and are usually recalled by scholars and marketing researchers as the "emergent-middle class".[59]

These stores, small brothers of big department stores, have been successful in targeting poorer consumers, and nowadays have more than three million clients. La Polar, for example, which started in the tailoring business back in 1920 and issued its first credit card in the late 1980s, was one of the most prosperous retailers in the 2000s, raising capital in the Chilean stock market since 2000 and internationalizing its business. A similar story accounts for the trajectory of Hites, a "multitienda" that, although had more difficult trajectories throughout the last decades, it started issuing its own credit card in the early 1990s, consolidated their niche with poorer consumers and now has more than one million clients. This is representative of other smaller "multitiendas" that proliferated on busy streets of the main cities of the country as well, as Tricot, Corona and Abcdin. To have a better picture, the chart below shows the market shares of the ten existing non-bank credit card issuers in Chile in 2008.

Figure 20: Non Bank Credit Card Issuers, Market Share December 2008.



Source: Data taken from Matus et al. (2010)[60]

The history of how these organizations embraced more sophisticated risk classification techniques is yet to be written. We know, for example, that Ripley started lending money before the 1980s with a book held in the store where the seller (the owner) would keep track of the payment schedule of well-

[58] The Association of Marketing Research in Chile adapted the classification of the system of the European Society for Opinion and Marketing Research (ESOMAR) to the Chilean reality.

[59] Nowadays, scholars searching for better classifications that account for the important transformations of the Chilean society suggest that this group might account for 25% of households.

[60] Xtra was excluded because it has less than 0.1%

known and trusted clients. The main discovery for the department store was that the seller (now also lender) should not be worried too much about the overall cost of the garment at stake, but about the amount of money that a consumer would be able to set aside on a monthly basis to pay the installments. This is the milestone of the department store credit cards, which is the transition from framing of borrowers based on their total income (the traditional model of banks), to the assessment of their "financial behavior" and the share of income that these can allocate to pay installments. Even though we do not know how the transition from these old lending systems to the contemporary credit card was orchestrated, due to recent research conducted by Ossandón (2013) we have a better grasp of how the business model came about from the perspective of risk management techniques.

As Ossandón´s research shows, department stores have successfully invested in expanding the market to low-income populations through the embracement of a particular risk-management technique known as "sowing". To some extent it reminds us of the strategy deployed by American banks in the late 1960s which issued thousands of unsolicited credit cards to solve the *complementarity* problem between credit card holders and shops accepting them (Guseva 2005). But "sowing" has the peculiarity of creating consumers by progressively lending very small amounts of money to unknown customers in order to engage people in credit relations and produce financial information. As the metaphor suggests, some of these consumers will pay their debts and a long lasting credit relation will flourish (and information is created), while others will perish without generating great losses (Ossandón 2013). Thus, with the help of a credit bureau (Dicom) that works as a black list for debtors since 1919, and the traces left by within-store purchases with credit cards, department stores systematically improved their predicting ability, refined their credit assessment policies and targeted new populations (for a characterization of the institutional infrastructure of the market for consumer credit in Chile see Ossandón/González (2010a)).[61]

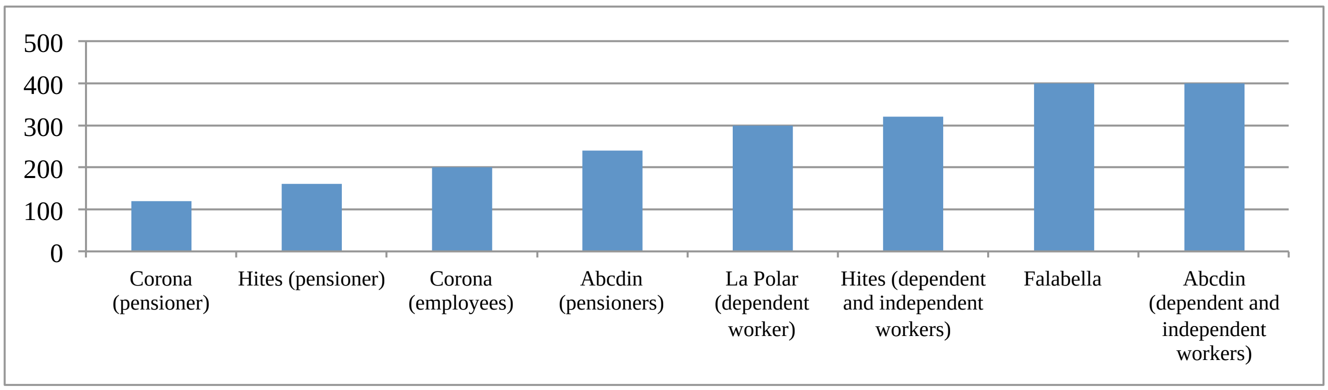
This represented an important advantage against banks, because the technique of "sowing" allowed them to gather financial information that is not shared with other financial institutions, which in Chile has created a major concern over the stability of the financial system for the sake of asymmetries of information (for a review of these socio-technical controversies, see Ossandón/González (2010b)).

In the end, department stores managed to lend money –and foster their sales- by issuing credit to those traditionally excluded from the banking sector. Of course, the criteria used to issue credit cards changed along with the economic cycle, but "sowing" allowed department stores to innovate and expand

[61] In this regard, uneven regulations will also play a crucial role in shaping the competition dynamics in this market since, unlike banks, department stores are not obliged to share this information with the rest of the financial system. According to (Montero 2010), this is a crucial advantage since the amount and quality of information grows as it does the amount of credit transactions, so retailers enjoy a decrease in the marginal cost of extending credit due to improved selection capabilities. In fact, persistent disputes over the property of such information after the 2000s will attune department stores corporate interests against those of banks. I will come back to these issues in chapter 5.

the business to new financial profiles that represent important segments of the middle-low income groups: housewives, youth, retired or seasonal workers, among others.[62] This is, for example, how “multitiendas” went on differentiating their lending policies for workers and pensioners, as it is in the cases of Hites or Corona. The common characteristic behind these new profiles, and that differentiates these from other lenders such as banks, is that department stores, in general, have less restrictive lending policies, especially with regard to income requirements. As the chart below shows, the “multitienda” Corona requires a minimum income of USD 200 for workers, while only USD 120 for pensioners. Hites, on the other hand, requires an income slightly over the USD 300 for both dependent and independent workers, and USD 160 for pensioners. In the most demanding cases, such as Falabella, the worker is required to certify a minimum income of only USD 400.

Figure 21: Minimum Income Required to Apply for a Credit Card, According to Different Department Stores (USD of March 2015)



Source: Data taken from respective websites.

In general such requirements relate to the fact that, unlike banks that differentiate their products according to the profile of their customers, department stores marketized credit cards as a very homogeneous product where the main difference are not the interest rates charged, but the available “room” on their credit card balance sheet. Thus the requirements are very low but the “available room” will change from customer to customer. In turn, these will have the capacity to improve their available credit by repaying their debts (creating *positive* information).

[62] Thus for example, CMR Falabella implemented a system of geographical localization that bans credit cards for specific districts in the city, a highly discriminative practice that brings the segregation of the city of Santiago into the department store. The map was published by CIPER Chile and it is available here: http://ciperchile.cl/multimedia/mapa-con-las-poblaciones-y-villas-vetadas-por-falabella/

In many occasions, due to the access that department stores have to external sources of information, such as pension funds administration agencies, it is possible to apply for a department store credit card only with a personal ID. In other cases, department stores rely on the classification of other department stores, and a credit card with small credit line –usually around the USD 200- is issued if a consumer already has a credit card in her pocket; this is explicitly stated in La Polar department store “lending policies”, for example.

Finally, a second advantage these institutions enjoy over other lenders is that many of them operate mainly in shopping malls, which have proliferated in both urban and suburban areas (the three main department stores have also entered into the real estate business by buying and even building some of these shopping malls). Although department stores in Chile existed long before shopping malls, their incorporation into these new “cathedrals of consumption” (as called by Moulian (2002)) created a particular synergy between consumption and credit.[63]

In this regard, the inauguration of the shopping mall "Plaza Vespucio" in one of the most populated district in the city in 1990, La Florida, represented for many the epitome of the "democratization" of consumption via the extension of credit to their consumers. According to Pérez/Salcedo/Cáceres (2012), nowadays "Plaza Vespucio" has 180,000 built square meters and in 2010 received 36 million visits, an impressive number if we consider that this is bigger than the visits to Mall of America (28 millions) and slightly lower than West Edmonton Mall (40 millions).

The arrival of department stores at shopping malls in the 1980s not only helped this new business to consolidate (as Salcedo/De Simone (2013) argue, without these department stores shopping malls in Chile would have failed), but it also fostered the sales and the promotion of department stores in important ways (nowadays, more than 25% of retail sales take place in these spaces). In this sense, one of the crucial advantages that department stores have over banks, is that they can not only better predict the behavior of prospective consumers, but also engage them more easily. Unlike banks, these credit cards are offered within department stores and shopping malls that are open to the public not only during longer periods (usually from 11 am to 9 pm) (Montero/Tarjizán 2010), but also during weekends, where the affluence of public to the shopping malls is huge. According to the Chamber of Commercial Centers in Chile, for example, taking the three biggest shopping mall chains (Mall Plaza, Parque Arauco and Cencosud), the

[63] According to GEO Research, there are more than 160 department stores only in the Metropolitan Region of Santiago, from which 95 are the so-called "big stores" ("grandes tiendas") and 67 are smaller "multitiendas". While there seems to be a clear preference of big department stores to be located in shopping malls (63% of them) -where they can target broader publics, "multitiendas" are predominantly located in the streets (64%).

number of visits for the first half of 2013 reached 1.2 million a day, which tends to concentrate more during the weekends when consumers not only plan purchases but also go out with their families.

Moreover, such spaces became important for lower income consumers that in some cases find cheaper products than in traditional stores, see in them decent public spaces, and find an offer of culture and entertainment that is not available in their own neighborhoods. As such, shopping malls have become in many cases the only way to reach a sense of comfort (Cáceres et al. 2006). Indeed, shopping malls increasingly diversified their range of services, offering not only goods on sales, but also cultural spaces such as ice rinks, concert halls, libraries or cirques (Salcedo/De Simone 2013).

Summing up, because of these techniques and advantages, in less than fifteen years department store credit cards surpassed the number of bank credit cards in at least four times, especially by expanding their business to those considered as "non-financializable by banks, such as instable independent workers, housewives and non-qualified manual workers (Zahler 2008). This explains why even though the spread of department store credits is much higher than banks, their credits are in average considerably smaller (which accounts also for the fact that banks still concentrate most stocks of debts in Chile).[64]

Table 5: Average Amount of Consumer Debts, 2011-2012

	Bank Loan	**Cash Withdrawals**	**Bank Credit Card**	**Department Store Credit Card**
Chilean Pesos	143,2000	426,000	501,000	195,000
US Dollars*	2,880.77	856.99	1,007.87	392.28
	Car Loan	**Social**	**Educational**	**Other Debts**
Chilean Pesos	2,973,000	519,000	1,508,000	120,000
US Dollars*	5,980.81	1,044.08	3,033.66	241.40

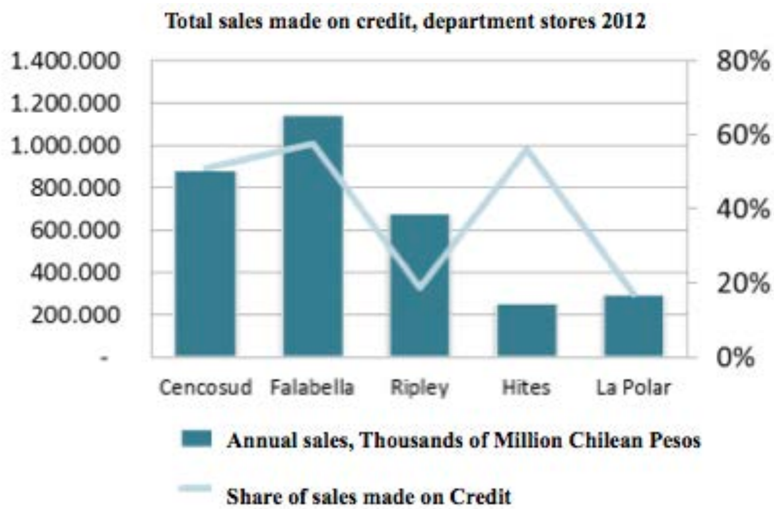
Source: Encuesta Financiera de Hogares, 2011-2012 *The average value of the dollar in May 2012, when the survey was finished, was 497.09 Chilean pesos.

Thanks to these advantages, department stores consolidated during the last twenty years as some of the most important corporative actors in Chile and Latin America. Some of them, especially those that target the lowest income populations, have relied to a great extent on financial services to allocate their

[64] According to Zahler (2008), in 2007 banks concentrated 63% of total consumption stocks, while department stores only reached 18% of the market share and compensation funds 10%.

goods and generate their profits (Hites department store, for example, sales almost 60% of their goods on credit).

Figure 22: Total Sales Made on Credit, Different Department Stores in 2012



Source: chart taken from Center for Retail Studies, CERET. Available at http://www.ceret.cl/indicadores-tiendas-por-depto/2012-2/

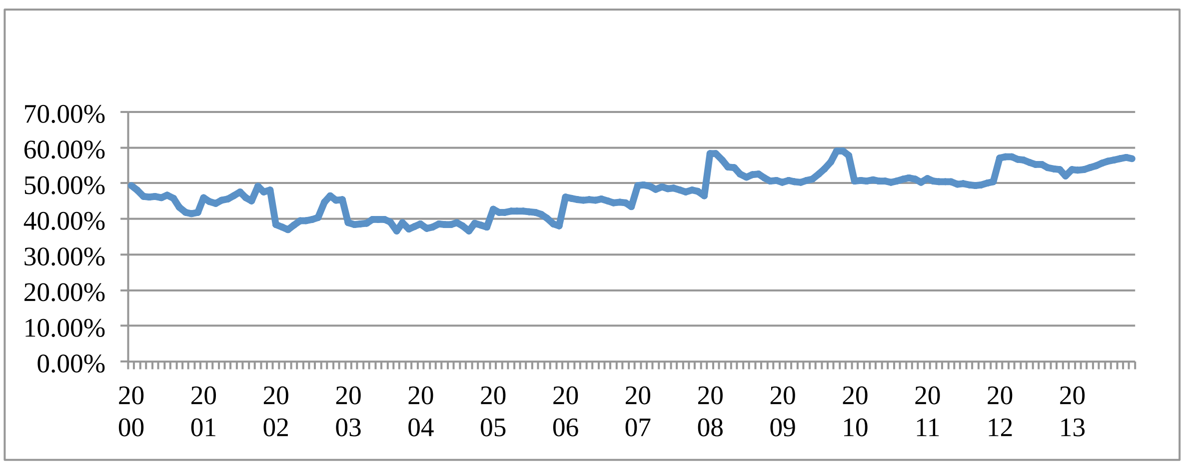
5.2.2 The institutional Foundations of Consumer Lending in Chile

The embracement of risk-management and "market attachment" techniques stress only the organizational side of the story. The other side is rather institutional and relates to the lack of regulations that actually allowed department stores to make their business model by charging high interest rates viable. It is in this sense that I argue that, unlike the fields of housing and education policies, the Chilean state in the sphere of consumption acted by omission.

Even though department stores were undoubtedly considered as the main lender among Chilean families, their operations came to be regulated only in 2006. This is one of the reasons why there are no available data on the interest rates department stores have been charging to their customers. Anyhow, one can have a clearer picture by looking into the interest rates charged according to the new regulations.

Interest rate regulations in Chile are stipulated in "Law 18.010" for the operation of credit money. Since April 2006, when department stores were finally supervised and regulated as financial institutions, their interest rates have been subjected to the "Maximum Conventional Rate" (Tasa Máxima Covencional) that can be charged by financial institutions in Chile. The Maximum Conventional Rate is a nominal rate that is monthly calculated by Chile´s Financial Regulatory Agency (Superintendencia de Bancos e Institutiones Financieras), based on the average cost of credits charged by the most important banks (Flores/Morales/Yánhez 2005).[65] Until 2012, this law stipulated that the interest rates charged by lenders in Chile could exceed the average interest rate of the previous period (month) by no more than 50%. Thus, for example, if the Maximum Conventional Rate was 50% and the monthly average interest rate charged by banks in the previous period was 5%, department stores were allowed to charge up to 7.5% monthly interest rates. Under this regime, the rates differ according to the amounts of credits and installments, normally consumer credits, credit cards and overdraft lines, applying monthly rates whose values range from 3.5 to 4.8.

Figure 23: Annual Maximum Conventional Interest Rate, 2000-2013



Source: Data from the National Service of Consumers´ Protection, SERNAC

As shown in the table below, the interest rates charged by department stores differ considerably, being those which target low income populations the most expensive sources of credit: La Polar, Johnsons and Presto (now Walmart). One of the main costs associated with these credit cards is the administration fee, which is normally charged in case of an existing debt or if transactions have been carried out. Furthermore, most department stores charge extra fees associated with the different services offered, such

[65] The maximum Conventional Interest Rate was created in 1929 and it was succesivelly published by the Central Bank until the Financial Institutions´ Regulatory Agency took over the task in 1981. It was initially settled at a 50% of the median interest rates of the previous period; then, it was reduced to 20% between 1953 and 1965, and reestablished at the 50% in 1966.

as installment credit, purchases in associated commerce, cash withdrawals, and associated insurances. According to a former risk-management CEO of one of the biggest department stores in Chile, before the 2006s regulations were passed, department stores were charging interest rates that could easily be 30% higher than the current interest rates.[66]

Table 6: Annual Interest Rates Charged by Department Stores in Associated Commerce, September 2011[67]

	USD 107.12 in 3 installments (no upfront payment)						
	CMR Falabella	**ABC/DIN**	**La Polar**	**Johnson's Multiopción**	**Paris Más, Jumbo Más y Más Easy**	**Presto**	**Ripley**
Clothing and Footwear in Department Store	39.48%	50.28%	n/a	50.28%	38.40%	50.11%	46.68%
Electronic Appliances Department Stores	39.48%	50.28%	n/a	50.28%	n/a	50.11%	46.68%
	USD 214.25 in 6 installments						
	CMR Falabella	**ABC/DIN**	**La Polar**	**Johnson's Multiopción**	**Paris Más, Jumbo Más y Más Easy**	**Presto**	**Ripley**

[66] Interview conducted in April 2013

[67] US Dollar of 12 September 2011.

Clothing and Footwear in Department Store	33.84%	50.28%	n/a	50.28%	35.04%	38.16%	46.68 %
Electronic Appliances Department Stores	33.84%	50.28%	n/a	50.28%	n/a	23.88%	46.68 %

Source: Data taken from SERNAC

In general, charging high interest rates proved to be the crucial element of department stores to expand their market to lower income populations. One can clearly see this in the effect that a new law passed in 2012 (Lez 20.715) had on the financial system. According to these new regulations, the Maximum Conventional Rate should be progressively reduced from the 55% average annual rate to around 35% for credit under 200 UF (USD 8,000 approximately), issued at more than 90-day installments; this basically covers all consumer credits issued by department stores and other lenders, as well as an important share of bank consumer loans. Immediately after its enactment, the interest rate was reduced to 6.3% and progressively decreased 0.5% every fifteen days.[68]

As a result, a recent report issued by the “Banks and Financial Institutions´ Association” (ABIF) announced that by march 2014 at least 26,400 consumers were left out of the financial system; at the same time, the spokesman of department stores financial committee declared that the market experienced an important contraction due to more restrictive risk-criteria, evidencing the impact that a decrease in interest rates has in a market whose expansion has been favored by lack of regulations.[69] In other words, it became clear that the expansion of the business relies to a great extent on the possibility of charging these high interest rates to low income consumers, the big majority of the Chilean working force.

To sum up, it is possible to say that if department stores capitalized on persistent inequality and positive expectations on the part of consumers, it was because they were able to develop financial innovations that allowed department stores to progressively financialize middle and low-income consumers. This business model, on the other hand, was successfully applied because of lean or inexistent regulations that allowed them to charge high interest rates and reach those riskier consumers excluded from the banking system. This proved to be crucial in the business model, since new regulations of interest

[68] The new regulations are available at: http://www.leychile.cl/Navegar?idNorma=1057087

[69] See interviews at: http://www.pulso.cl/noticia/empresa-mercado/mercado/2014/06/13-45486-9-un-total-de-26440-deudores-de-consumo-salieron-de-la-banca-en-un-ano.shtml

rates introduced in 2012 had an important effect on the contraction of the market. What still has to be shown, however, is that if consumer credit became a social policy that boosted in part the "Chilean modernization" process, it was –at least at the aggregated level- by expanding people´s purchasing power rather than helping people to smooth it in times of crises. The question that has to be tackled, then, is about the logic of this particular type of indebtedness and how it works in practice. For this, it is worth clarifying some trends of the financialization of Chilean households.

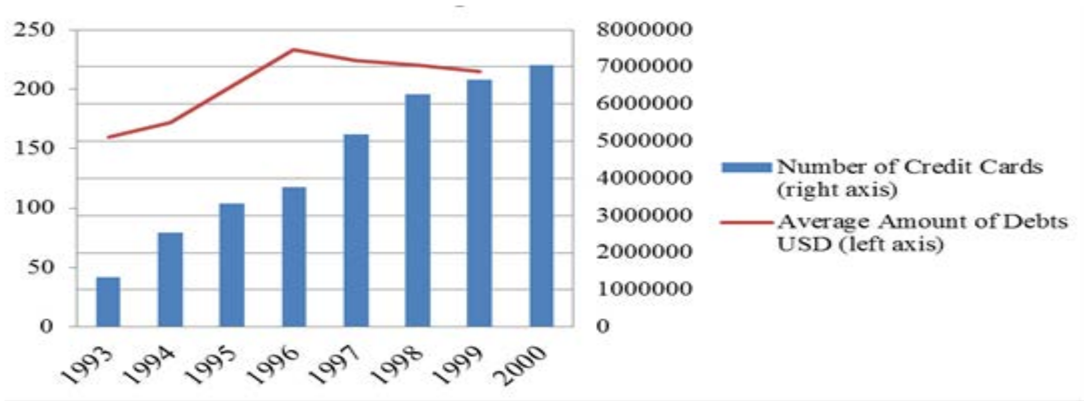
5.3 Expanding Purchasing Power

One of the most ingrained belief in the field consumer lending, especially held by economists, is that credit helps people smooth the consumption of households in the face of income shocks and throughout the life-cycle. Thus, for example, economists from the Central Bank of Chile argue that "The utilization of credit allowed families to spend in present consumption, compromising their future income, and, in this way, smooth the path of consumption along the life-cycle" (Ruiz-Tagle/García/Miranda 2013, p. 4).[70] Or that unsecured debt is important because it "...is mainly backed by future expected incomes, allowing for consumption smoothing over transitory income or need shocks, being more volatile as requirements and use of debt are more linked to income/need shocks." (Cox/Parrado/Ruiz-Tagle 2006, p.6). But to what extent is this true? What is the general role played by consumer credit in Chile´s Privatized Keynesianism? If consumer credit in Chile fostered a modernization process in the area of consumption, as I argue in this dissertation, wouldn´t we expect credit to serve as an extension of people´s purchasing power, rather than as a substitute?

As it has been already shown that the first wave of expansion of department stores credit cards in the early nineties took place in a context where the GDP grew at an average annual rate of 7.8 between 1987 and 1997, and the per-capita product at a 6.1 annual average rate. These trends moderated their pace after the 2000s when the economy started recovering from the "Asian crisis" in the late 1990s. This crisis marked a break with the expansive and euphoric growth of the 1987-1997 decade. In one year, economic growth diminished from 6,7% to 3,2% in 1998, and unemployment ballooned from 6,4% in June 1997 to 11,1% in 1999 (Tironi/Ariztía 2003). As shown in the following chart, this had an important impact on the market, and the number of circulating credit cards grew at a slower pace after 1998 and the average amounts of debts decreased more dramatically.

[70] "El uso del crédito ha permitido a las familias gastar en consumo presente, comprometiendo sus ingresos futuros, y de esta manera suavizar la senda de consumo a los largo del ciclo de vida."

Figure 24: Evolution of Number of Department Store Credit Cards and Average Amount of Debts, 1993-2000

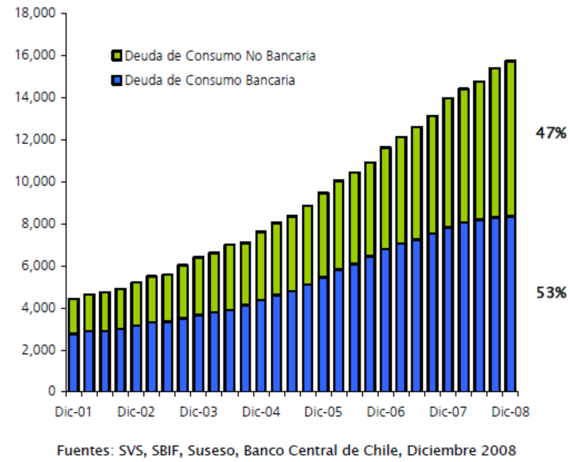


Source: Data from PNUD (2002)

This situation changed with the economic recovery that started after 2001 and a second wave of financialization materialized between 2000 and 2009, where consumer debts grew almost four times faster than the whole country´s economy: the average annual growth of the economy was 3.6%, while the average annual growth of household debt was 12% (14% consumer credit and 12% mortgages). Although the atmosphere was not as optimistic as in the nineties, the expansion of consumer debts was quite impressive, to the point that in 2004 the Minister of Finance already named it as the "fiesta del consumo" ("Consumption Party").[71] This second "party of consumption" was driven by the expansion of department stores and compensation funds to the low-income households, retired workers and younger consumers, as well as a more aggressive campaign undertaken by banks, whose consumer stocks gained importance in their overall portfolio. Among the new populations targeted by lenders, two of them at the extremes of the life cycle called the attention of policy makers, youth consumers and retired workers.

[71] *Revista Capital*, Friday, September 21st, 2007. http://www.capital.cl/poder/2007/09/21/050900-el-pai%C2%ADs-el-pie-y-las-cuotas

Figure 25Consumer Debt, Thousands of Million Chilean Pesos (nominal)

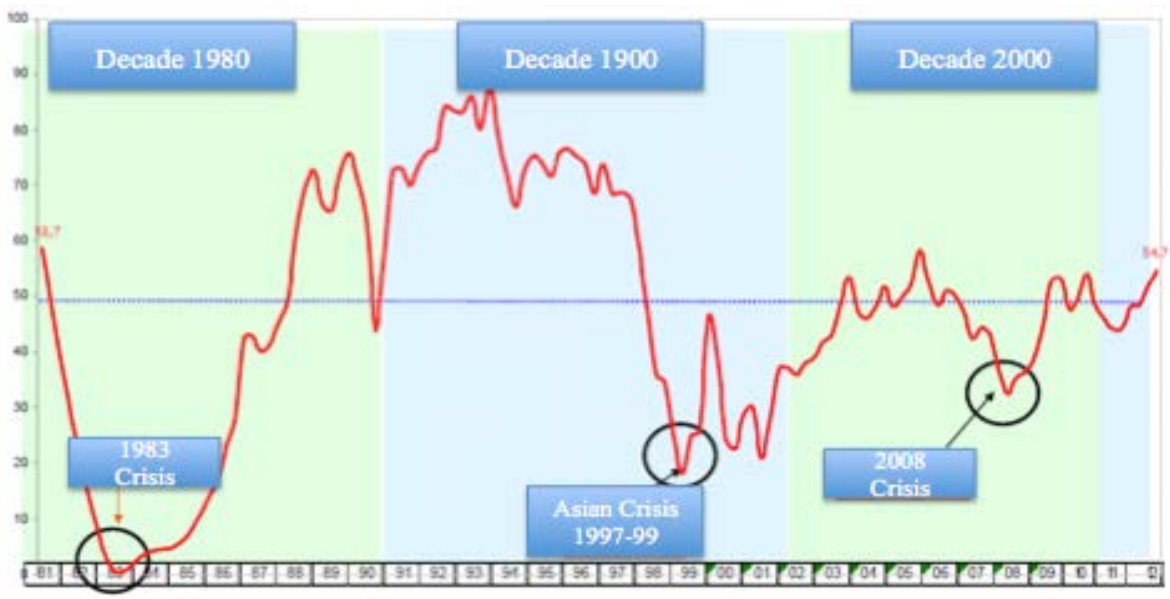


Source: chart taken from Cowan (2009)

Consumer debts kept growing after the crisis in 2007 but at a more moderate pace. The real annual growth rate of consumption debts dropped from 15.8% in 2007 to 9.1% in 2008, and to1.8% in 2009, to slowly recover in the second half of 2010 (Central 2010). Of course, both crises had important consequences for many families and consumer debts escalated for those that were not able to make their payments on time, especially among the bottom income quintiles. But during both crises, Chilean families moderated the uses of department store credits and started using them very intensively in times of recovery. According to the 2008 Financial Stability Report of the Chilean Central Bank (second semester), for example, the contraction of department store debts in 2007 was related to an important decrease in the demand for durable goods, which indicates these consumer credits were not necessarily used as a means to cope with instability but rather to expand people´s consumption in times of growth.

This might help explain why periods of expansion and contraction of the market for consumer credit not only showed a clear relation to the economic cycle, but also to people´s expectations towards the whole economy and their own situation. As the following chart shows, the evolution of the consumers confidence index (which is a compound index of people´s attitudes towards the economy and the opportunity of buying durable goods), the periods of major expansion of the market for consumer credit (1990-1997 and 2000-2007) coincide not only with economic growth, but also with positive expectations on the part of consumers, which reinforces the idea that rising consumption debts in Chile relate less to periods of crisis than to collective improvement.

Figure 26: Consumer Perception Index, 1981-2012 (quarterly average)



Source: chart taken from Adimark, IPEC: Índice de Percepción de la Economía, Informe Mensual Febrero 2012.

Credit cards are used to expand purchasing power basically because department store credits are usually associated with within-store purchases (especially durable goods) and they are not useful to smooth consumption. In this regard, the Household Financial Survey conducted by the Central Bank in Chile is very informative. According to the 2009 survey, for example, people admitted using different types of consumer loans in the first place to buy home appliances, which in the case of department store credit cards reached an overwhelming 70 percent (38% of bank credit card debts, 34.8% department store or financial institutions cash loans, and 21.3% bank consumer loans). Moreover, in the case of department store credit cards, concerning the second most important use of consumer loans, the surveyed mentioned "other within-store purchases" such as buying clothing and footwear that reaches 16.7%, which means that almost 90% of these debts are acquired to make within-store purchases. As one can expect, other "non- earmarked" credits, i.e. not attached to within-store purchases, seem to be allocated to more "defensive purposes", such as paying other debts (29.5% of bank consumer loans and 17.25% of loans with financial institutions or department stores), or cover medical treatment.

Table 7: Credit Utilization by Credit (%) of Households with Consumer Debts in 2009

	Bank Credit Card or Overdraft Line	Department Store or Financial Institution Loan	Bank Consumer Loan	Department Store Credit Card
Purchase of home appliances	38,06	34,76	21,27	70,19
Vehicles or other transportation means	6,72	2,46	8,87	1,65
Purchase of luxury articles (jewelry, pieces of art)	0,93	-	0,48	1,42
Other purchases	10,46	22,04	11,74	16,17
Vacation	2,95	2,29	1,36	0,08
Medical treatment	5,17	7,62	7,46	1,8
Cancellation of debts	14	17,25	29,52	4,12
To finance an investment	6,4	0,99	6,34	0,16
Home remodeling	6,29	9,49	0,29	1,85
Other	7,24	3,1	7,11	1,96
No answer	0,96	0	5,14	0,49
Does not know	0,38	0	0,42	0,11

Source: Data from the Households´ Financial Survey, EFH 2009.

The point I am trying to make here is that, in line with the idea that credit has served as a policy tool to foster a modernization process and make income inequality less salient, the evidence supports the notion that credit works mainly by expanding people´s incomes in times of prosperity. This would rule out in principle the “defensive consumption” hypothesis in its most simple form, which is that credit helps people smooth their consumption in times of distress. Moreover, as one can also preliminary argue, this would also call into question two other beliefs commonly held in the media and political economy: firstly, the idea that credit is serving the purposes of an out-of-control consumer in search for status by deploying luxury goods, fancy vacation, up-to-date clothing and vehicles, and so on. Secondly, it calls into question the idea that most consumers are acquiring consumer debts to afford the rising cost of education and health care in context of stagnant wages, as political economists usually argue.

In place of these three options (smooth consumption, deploy wealth and catch up with rising living costs), people seem to be buying the “standard package” of durable goods with which they furnish and equip their houses. In this sense, it is possible to extend the argument and hold that housing policies worked as a crucial force boosting the expansion of credit throughout different mechanisms. Firstly, the expansion of homeownership stabilized the situation of families across the middle and bottom income distribution, and demanded new investments to equip these new homes (as I will depict with credit-stories of families in chapter 9). Secondly, poorer families have higher levels of homeownership but enjoy low wages and less residential mobility. This pushes them to rely heavily on credit in order to make improvements in their homes.

Up to this point, it becomes clear that consumer credit boosted the Chilean modernization process and worked as a policy tool to integrate all social strata into the "party of consumption"<<. The last issue to tackle now is to show the particular shape that the *politics of debt* took in this context.

5.4 The Politics of Consumer Debts in Chile

The solid expansion of the market for consumer credit is essentially based on the fact that Chilean families learned how to deal with credits and that they pay-off their debts. In my view, three major reasons account for this.

The most obvious reason is that lenders are powerful actors, entitled and with the means to enforce the payment of these debts. In fact, consumer credit contracts with banks and department stores are very similar. In both cases, consumers sign a *promissory note* with an open date, which is eventually used to enforce the payment of the existing debt at any point in the future. This gives the right of suing consumers until the last consequences, which basically means seizing their assets, including money in a bank account and tax returns. In most cases, an extra-judiciary process takes place, where lenders insist that consumers cancell their debts by making phone calls or sending letters, which are normally in the hands of a debt collection agency. When conventional collection fails, lenders approach consumers by offering them a re-negotiation of their debts, which is nothing different from the creation of a "new debt" that covers unpaid debts, interests and fines. There is a good reason to do this: suing a consumer takes time: firstly, a consumer is formally sued; then, the consumer is notified; and in the end lenders can seize goods after a while. Furthermore, suing a consumer takes time and it is very expensive if we consider that most of these debts are relatively small.

The second reason is that being on the "black list" of Chile´s credit bureau (Dicom) is symbolically and materially punished within and outside the domain of consumer lending. This is an issue I will come back to later on in this chapter when assessing the *off-label use* of Dicom´s black list (Rona-Tas 2014).

And finally, as a matter of fact, these debts seem to have been well received by the majority of consumers that see in them a step to a new form of citizenship, less centered in entitlements, and more dependent on participation in the "party of consumption". Furthermore, since consumption is seen as a private affair subject to personal preferences and freedom of choice, it is less acceptable to raise claims over the legitimacy of these debts. After all, people seem to be participating in the "consumption party" rather than defending themselves from the privatization of risks and making the burden of inequality more bearable.

This state of affairs raises some questions. If Chileans pay-off their debts and they even seem to use credit to materialize their desires, how did interest rates regulations of 2012 come about? If consumers were financing the "Chilean dream" and over-indebtedness is not causing "systemic risks",[72] what are the reasons for raising concerns, monitoring the market more closely and implementing some regulations?

In the domain of consumption, the erosion of the legitimacy of debts and the "counter politics of debt" came very late on the part of consumers and, to a lesser extent, on the part of the political class regarding three phenomena that brought to light the obscene practices of some department stores: public scandals, abusive and asymmetrical contracts, and the "off-label" use of credit ratings.

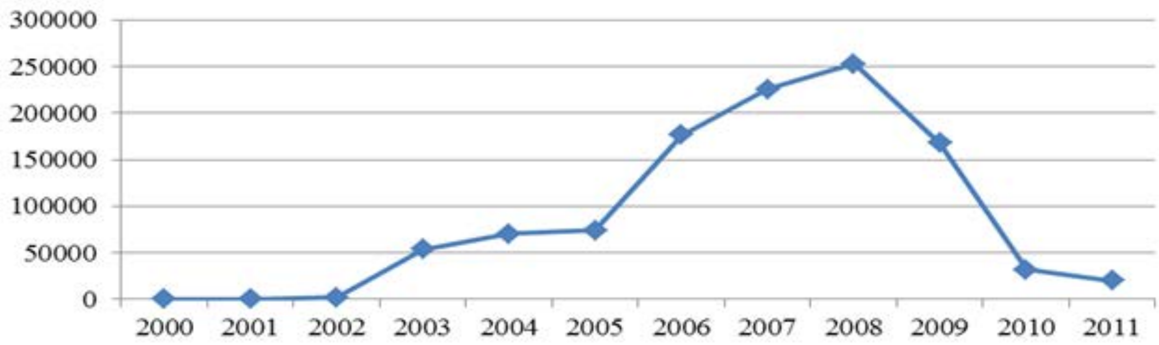
A big fraud carried out by one of the biggest department stores, La Polar, marked the "beginning of the end" for these absolutely deregulated markets in 2010. La Polar´s fraud was a sort of small "Enron" case, where the balance sheet of the company was systematically modified to raise capital in the stock market. Since 2003, the big department store, which specialized in lending to low-income consumers, had been unilaterally re-modifying the credit contracts of their consumers and making its debt portfolio more appealing. Thus, with a software developed by their informatics and risk-analysts, the company constantly reorganized the payment schemes of a total of 990,000 low-income families´–most of them in default- in order to make them appear as "clean debts" in their balance sheets (Traslaviña 2013). After the scandal came out, the managers of La Polar argued in court that the company was issuing "new loans" to these customers and extending their payments on time in order to supposedly alleviate them and avoid legal problems. In this manner, defaulters were "helped". However, what the managers omitted in their statements was that the portfolio of the company was more appealing in the stock market, where the company has been raising capital since 2003.

With a gigantic and appealing portfolio composed of manipulated debts, the executive staff systematically convinced share-holders -among them the AFPs and the six million workers that suffered losses in their saving accounts- that the company was in an excellent shape to acquire more debt and keep growing. After all, as the executives said later on in court, during the previous years the company invested annually around 30 to 40 million dollars in their marketing strategy and was issuing around 10 thousand

[72] According to experts of the Central Bank, over-indebtedness is not a problem in Chile, at least from the perspective of systemic risk. The share of households with riskier debts, i.e. whose burden reaches 75% of their income, is only 9%, and corresponds to households that hold the smaller shares of total debts (Fuenzalida and Ruiz-Tagle 2010).

credit cards a year (Traslaviña 2013).[73] This unscrupulous strategy put La Polar on the pedestal of the four biggest department stores in Chile, materialized international expansion to Colombia in 2010 and put the face of its "CEO of the decade" (Pablo Alcalde) on the cover of prestigious business magazines;[74] but it also drove to despair to thousands of low-income workers, pensioners and housewives who saw their small debts systematically rising due to re-organizations, fees and insurances they were not aware of.

Figure 27: Number of Clients that Suffered Re-arrangement of Debts



Source: Data taken from Traslaviña (2013)

After the scandal came out in 2010, this department store, that by then had a market value of USD 1,900 million dollars, saw its stock value plunge from one day to another to USD 200 million. After periods of high uncertainty and negotiations between the company, regulators and shareholders, the latter decided to keep the company on the retail market, while thousands of clients overcrowded the department store to get the reimbursement and compensation that the big retailer had to pay out. Since the scandal, department stores and their financial business were under the scrutiny of the public opinion, as well as the regulators, who had proved to be completely inefficient in preventing these and other abusive practices that came out after the La Polar scandal.

What is most surprising about the scandal from the perspective of the *politics of debt*, however, is the reaction of consumers. After receiving a compensation for the scam, consumers kept using their La Polar credit card to buy their home appliances, clothes and footwear as if nothing had happened. This time the "politics of forgiveness" did not come from the state or the lender, but -more surprisingly- from the borrower themselves, which makes us think about the crucial role that these financial instruments play in the life of these low-income families.

[73] One of the strategies department stores used in 2004 was to illegally appropriate the database of the Social Security Institute (Instituto de Previsión Social) and to send unsolicited credit cards to thousands of pensioners, even those who were already deceased.

[74] In 2009, for example, the newspaper *La Tercera* chose Pablo Alcalde the „CEO of the decade"

In general, La Polar scandal had an important impact on the public opinion and prompted a closer supervision and the need for creating a special agency to protect consumers from the financial services industry. Under this scrutiny, more abusive practices came to be known in the successive years, which were, in many cases, adjoining legal boundaries. Among them, the most typical were the authorization of the acquisition of insurances, increase of available room in credit card balances and re-negotiations of debts via telephone calls, which, in many cases, did not clearly inform the consumer. As research journalists have shown,[75] for example, in 2010 department stores commercialized almost twelve millions of insurances in this way, which reached more than 218 thousands of million Chilean pesos (around USD 450 million of 2011).

These practices and more suspicious attitudes of consumers towards the financial services industry seem to explain the rising number of complaints that the National Consumer Protection Service (SERNAC) received in the years following La Polar scandal. Between June and October 2010, for example, SERNAC received 15,730 complaints from the financial services industry, 64% related to department stores credit cards and 32% to banks. These trends do not seem to have changed over the last years, since only in the first semester of 2014, where SERNAC received 143,000 complaints, 27% and 19% of which came from department stores and their financial services, respectively, amounting altogether to 65,780. Among those related to financial services, 41% were related to illegal charges or excessive commissions, and 16% related to poor quality service.[76]

Finally, another important reason that pushed regulators to implement one of the most unusual "politics of forgiveness" on the market for consumer credit was the off-label use of credit reports that employers had being using to frame prospective employees during the last decade. As Rona-Tas (2014, p. 4) explains, an off-label use of credit ratings takes place when "(financial) instruments developed in the specific context of a particular financial transaction come to be deployed for novel purposes, outside their original context". In fact, like the United States, consumers credit reports in Chile were systematically used by employers to assess prospective employees´ trustiness. In this case, however, the reports provided by Chile´s Credit Bureau, Dicom (bought by Equifax), operated as a black list informing about consumers misbehavior. Thus, by paying a small amount of money employers used to access on the commercial information of prospective employees, which basically certifies if one is or not in the "black list" of defaulters. This became in practice one of the main "social tests" against which Chileans are successively

[75] Available at: http://ciperchile.cl/2011/08/08/despues-de-la-polar-las-otras-%E2%80%9Ctrampas%E2%80%9D-de-la-industria-del-retail/

[76] These studies are available at: http://www.sernac.cl/radiografia-de-los-reclamos-recibidos-por-el-sernac-durante-el-primer-semestre-del-ano-2014/. In the same period, the agency received also 1,793 complaints against compensation funds, most of them related to their financial services. See http://www.sernac.cl/cajas-de-compensacion-cobros-indebidos-y-falta-de-informacion-son-los-principales-problemas-que-afec/.

evaluated, and a very controversial issue in the public opinion during the last ten years (Viñuela 2011). The fear of falling in Dicom´s black list is one of the most effective mechanisms to enforce the payment of consumer debts, either by preventing stigmatization or allowing people to have interrupted access to credit.

In this sense, regulators called the attention to the fact that the off-label use of Dicom´s black list reports was creating vicious circles for those consumers that underwent job loss and were trying to reincorporate into the labor market. Paradoxically, those debtors that fell into the "black list" due to job loss faced more obstacles to obtain a new job every time employees discriminated against them for being in default. This, in turn, would create spirals of debts by preventing them to find new sources of income and get out of Dicom´s black lists, perpetuating the circuit of debt, stigmatization and unemployment.

In this sense, the controversial "Dicom Law" passed in 2012 carried with it two main changes on the market. Firstly, it banned the off-label utilization of Dicom´s black list records and restricted it only to the exclusive purpose of assessing the risk profiles of prospective borrowers. Secondly, in trying to reverse the perverse effects of the off-label use of Dicom´s black list reports –and arguably gain increasing popularity among consumer- the law applied a peculiar "forgiveness policy" and "washed away the sins" of debtors by erasing them from the black list, provided that their total debts in default were less than approximately USD 5,000 (excluding interest rates).

Finally, the main consumer protection agency was also slightly reformed in 2012 and aimed at providing solutions for market failures rather than strengthening the institutional capacities of regulatory agencies for effectively protecting consumers. In the spirit of the "nudge" theory of behavioral economists, the new regulations focused mainly on equipping consumers with better tools to behave more rationally on the market.[77] For this reason, the Chilean government created a new agency geared at protecting consumers from and informing them about existing financial products in the market called "SERNAC Financiero". Nevertheless, its jurisdiction made it a mediator between consumers and lenders, rather than a protective institution and a relevant actor in the *politics of debts.* In this regard the main reform came about later in 2014 with the implementation of a bankruptcy law. Only enacted in October 2014, the new law "Ley de reorganización y liquidación de empresas y personas" (Law of Reorganization

[77] Concerning the most important issues, the new legislation establishes that consumers have the right to keep credit conditions and prices offered for seven days in order to compare with other bidders; they should receive a sheet summing up the relevant aspects of credit contracts; consumers have the right to be informed about the reasons for credit refusal; credit bills will contain more detailed information (including now insurance policies and administrative fees); a new indicator containing the annual cost of the credit (CAE for its acronym in Spanish) has been introduced in order to make price comparisons easier; credit insurance policies are now voluntarily acquired; there are no costs associated to plastic card replacement, and companies must open a specialized customer service area that has to process queries in less than 10 working days.

and Settlement of Companies and People), establishes a normative especially designed for “natural persons” that have a 90 days default and whose debts reach over the 80 UF (around US $3500), which were previously subject to the same regulations as companies. Consumers will now be able to renegotiate debts with their creditors without being on trial during the period. The impacts of the new law and the characterization of bankruptcy and recovery process in Chile are yet to be written.

CHAPTER 6 THE DEBT OF CHILEAN FAMILIES

So far, I have depicted the overall logic of debts in Chile´s Privatized Keynesianism, showing that the financialization of education, housing and consumption fostered a modernization process. Likewise, I have also demonstrated that consumer debts in Chile served as a means to expand people´s purchasing power, rather than to cope with emergencies. But why do Chileans buy on credit? If credits help them "smooth their consumption" throughout the life-cycle, what exactly moves them to acquire consumer debts instead of saving for the goods they want to have? The first logical step to answer these questions is to establish *who* have these debts, *how much* debt, and *what* are the structural factors behind the financialization of consumption? To this end, the current chapter draws on the Household Financial Survey and existing research. With these sources, one can characterize the "debts of Chilean families", provide the overall picture of indebtedness, and suggest where to start looking for concrete answers.

6.1 CONSUMER DEBTS IN CHILE: WHO, HOW MUCH AND WHY

In general, the share of households with consumer debts in Chile fluctuated between 60 and 63% between 2007 and 2012 (period for which there is systematic information). The most important types of debts are by far department store credit cards, which reached its peak in 2007 (49.4%), followed by mortgages (15.2%), bank credit cards (13,8) and consumer loans (13.5%).

These debts are unevenly distributed across income groups. Following the unequal distribution of income, the Central Bank of Chile groups these households into three categories: low (income deciles 1 to 5), medium (income deciles from 6 to 8) and high (the top 20%). Under this categorization, one can notice that while department store credits are the most "democratic" source of credit for Chilean families, other types of debts are very stratified. On the one hand, bank loans, bank credit cards, and to a lesser extent, educational loans, are mainly held by medium and high income households; on the other hand, social loans and informal sources of credit are held in higher proportion by households that belong to the bottom 50% of the income distribution. This is something one can expect, since there are supply factors shaping the distribution of these debts, such as high-income requirements by banks, versus the low requirements by department stores. It is also noteworthy that the fact that people from lower income groups had increasing access to department stores, was not a reason for higher income consumers to stop using them. This has to do with the fact that there is an important segmentation within the credit market where "multitiendas" tend to focus exclusively on "subprime" borrowers, while big department stores have a wider range of public. As interviews with managers from department stores show, a same department store credit card has different "lending criteria", "offers" and "benefits" according to the location of the department stores. Thus, for example, a store in the suburbs of Santiago offers a product in up to 12 installments, while in an upper class shopping mall the same product is offered in 3 installments with no interest; this means that in the former case credit allows people to purchase things, while in the latter it is a matter of fostering loyalty and serving as a means of payment.

Table 8: Share of Households with Different Types of Debts by Income Group, Different Years

	Strata 1 (income 1-5 decile)			**Strata 2 (income 6-8 decile)**			**Strata 3 (income 9-10 decile)**		
	2007	**2009**	**2012**	**2007**	**2009**	**2012**	**2007**	**2009**	**2012**
Bank Loan	6.7	7.9	8.7	15.6	17.0	15.3	22.9	26.1	22.6
Bank Credit Card or Overdraft Line	6.7	3.4	7.9	13.9	6.1	14.7	30.7	26.1	27.5
Department Store Credit Card	46.3	42.8	40.8	55.4	49.8	48.9	48.2	45.0	42.2
Loan with Department Store and other Financial Institutions	4.4	1.7	5.4	6.9	4.0	7.5	3.8	3.7	3.4
Social Loan	7.9	7.9	11.6	7.6	9.0	14.8	6.0	5.9	10.0
Car Loan	0.2	0.9	0.6	2.3	1.4	1.6	4.7	2.8	5.2
Educational Loan	2.6	1.7	3.5	5.3	2.3	6.2	7.2	7.7	9.2
Mortgage	5.6	8.8	7.5	15.6	15.8	17.0	29.7	31.5	31.8

Source: Data from the EFH 2007, 2009 and 2012

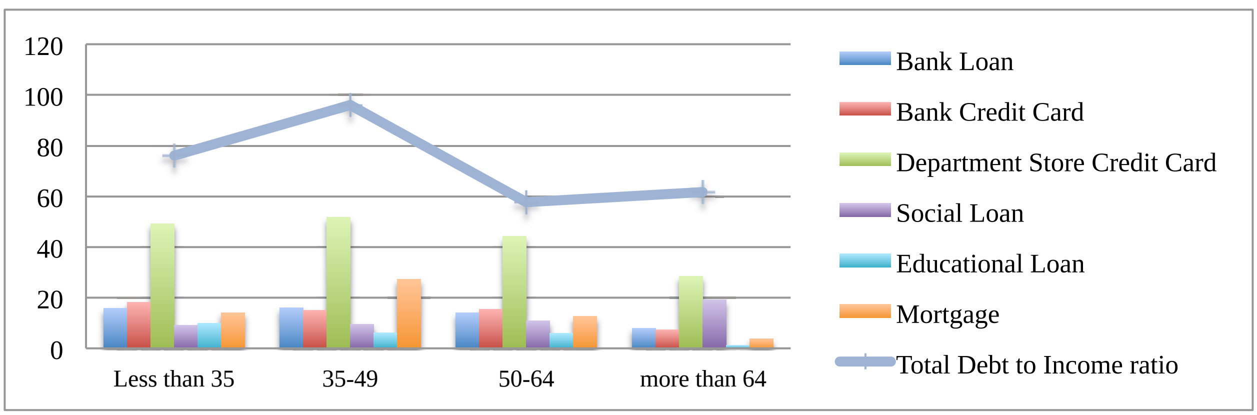
In general, it is possible to outline main trends in the utilization of consumer credit for the last eight years, for which there is available information. In the first place, as the table below shows, it is noticeable that banks have implemented a more aggressive campaign to compete with department stores, targeting lower income population –though at a moderate pace. This is why the share of households from the low-income group with bank loans and credit cards increased between 2007 and 2012, while it remained very stable in the other segments. Likewise, department stores lost importance among low-income groups, whereas "social loans" issued by "Cajas de Compensación" that administer workers´ social benefits, and "other" (informal) debts gained increasing importance.

There are different reasons behind the scenario aforementioned. While the expansion of "social loans" has to do with the fact that the so-called "Cajas" started lending money to low income consumers without taking any risks, the expansion of "informal debts" relates to the fact that during economic downturns Chilean families tend to resort to personal networks (informal debts) rather than formal loans, as it happened between 2007 and 2012 (see chapter 10).

In principle, there are no big differences with regard to the gender of the heads of households holding debts. While women tend to have more department stores credit card debts (46% over 39.6% in 2012), men use bank credit cards in a higher proportion (16% over 12.4% in 2012). This has to do with the fact that men enjoy better conditions in the labor sector, as well as the fact that department stores have targeted populations that do not get incomes and are less attractive to banks, such as housewives.

With regard to age groups, heads of households aged between 35 and 49 years old hold higher levels of debts, with a total debt to annual income ratio close to 100%, which relates to the fact that mortgages are more important for this segment.[78] This group is followed by consumers under 35, whose total debt represents in average almost 80% of their annual income. Household heads over 50 hold a similar debt to income ratio around 60% of their annual income, and it decreases in less than 30% for heads of households over 64 (the legal age for retirement for men in Chile).[79]

Figure 28: Debt to Income Ratio and Share of Households with Different types of Debts by Age Group, 2012



Source: Data taken from data from EFH 2012

[78] The Central Bank of Chile suggests that an over-indebted household has a total debt to annual income ratio over 80%

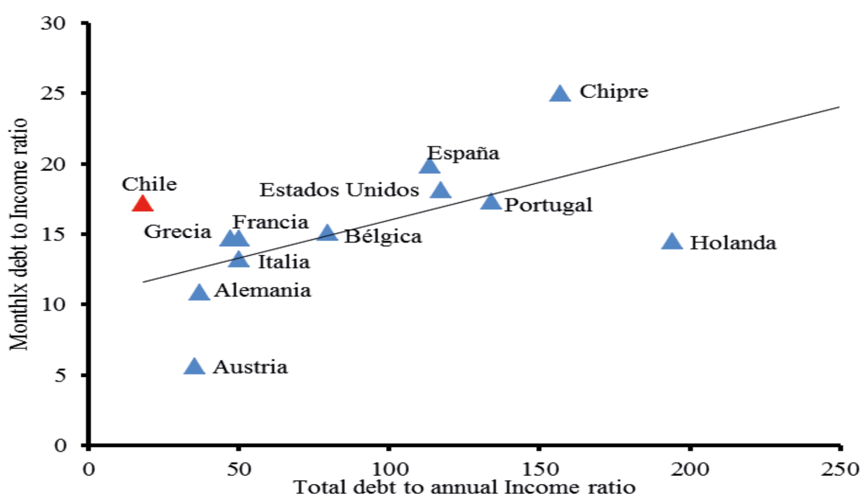
[79] The financialization of this group is very recent, and it has been fostered not only by department stores but also by "social loans" issued by "Cajas".

6.2 THE DETERMINANTS OF HOUSEHOLDS´ DEBT

One has to be careful when drawing conclusions from debt ratios. The reason is that there are important differences between mean and median values, which suggests that there are extreme values conditioning the ratios (Ruiz-Tagle/García/Miranda 2013). That being said, there are important aspects to take into consideration to understand the financialization of consumption in Chile, for which survey analyses are very informative.

Levels of indebtedness and financial burdens of Chilean consumers have their own local specificities. In general, high interest rates charged by department stores not only made the business viable (as we saw in chapter 5), but they also explain the nature of the financial burden of Chilean households, characterized by a low total debt to annual income ratio, and a high monthly debt service (i.e. the share of monthly income that people have to allocate to honor their formal debts). Indeed, the total level of Chilean household debt as a share of the GDP is not as high as in other countries, which in cases such as Denmark, Holland, Ireland or Norway, to mention just a few, reaches considerably more than 100 percent of the national income (BC 2013). Nevertheless, the average debt to monthly income ratio is particularly high in comparison with other developed countries (around 17%), which is mainly explained by the relative importance of mortgage and consumer debts. While mortgage debts in Chile reach around 20% of total debts, such percentage in European countries is around 80%, which is also translated into a much higher total annual debt to income ratio. Consumer debts in Chile, on the other hand, are short-term and charge high interest rates, which makes the monthly burden of households particularly high at a lower level of total annual debt

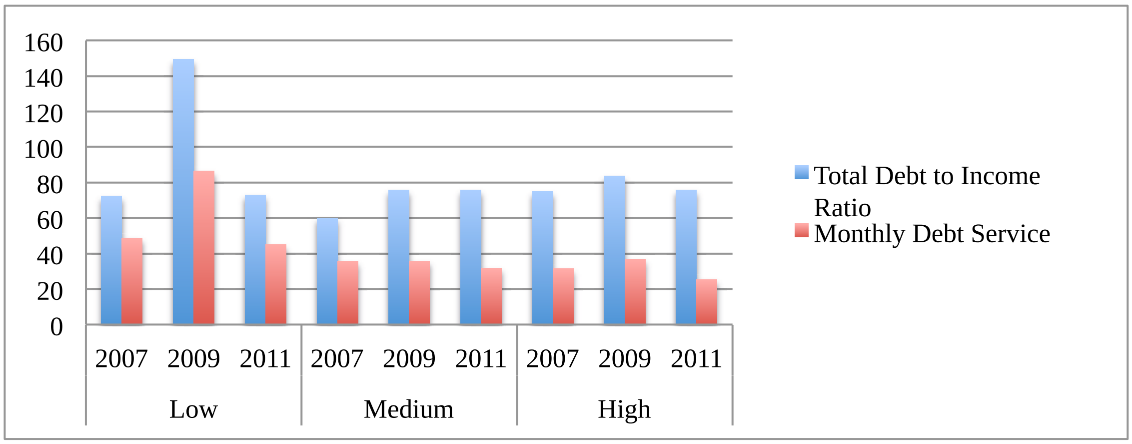
Figure 29: Total Debt to Annual Income Ratio and Monthly Debt Dervice in Chile, 2013



Source: Chart taken from BC (2010).

As it can be seen in the chart below, the monthly-debt-service in Chile ranges between 30 and 40% of household incomes. In this respect, two facts are important to keep in mind: Firstly, that higher levels of debt in Chile are held by high income and educated heads of households (completed education) aged between 35 and 44 (Ruiz-Tagle/García/Miranda 2013). That is why the bottom 20 percent of the income distribution concentrates no more than 10% of secured debts, while the richest 20% concentrates more than 50%. This has to do with the fact that high income households acquire real state property of considerably higher value than other income groups (Ruiz-Tagle/García/Miranda 2013). Secondly, although high-income consumers hold higher levels of debts, the monthly debt service is considerably higher for the bottom 50% of the income distribution ("low income" in the chart).

Figure 30: Evolution of Financial Burden by Income Group 2007-2011



Source: Data taken from from EFH 2007, 2009 and 2011.

The chart also shows how these burdens fluctuated between 2007 and 2011 with the financial crisis in between, affecting the burden of poorer consumers more significantly.[80] Thus, while middle-income groups experienced a relatively moderate increase in their monthly debt service ratio between 2007 and 2009 (from 60.1 to 75.7%), it almost doubled for lower income households (from 48.8 to 86.6%). As expected, this is not related to a more intense utilization of consumer credits (defensive consumption hypothesis), but by the fact that their incomes dropped in significant ways due to higher unemployment rates (Ruiz-Tagle/García/Miranda 2013).[81]

[80] Between 2008 and 2009 Chilean households experienced a 7.5% reduction in their wealth; unemployment rate reached 10% and banks strengthened their credit policies (Álvarez/Opazo 2013).

[81] Along these lines, for example, Madeira (2012) estimated that an increase in unemployment rates from 7% to 10.5 between 1990 and 2009 (similar to the one Chile experienced between 1998 and 2001) could increase the number of insolvent families by 3 to 4 times the normal rates.

The rising indebtedness of Chilean households has called the attention of scholars and policy makers alike, who tried to address the main determinants of over-indebtedness and default rates. In the spirit of monitoring risk, for example, the Central Bank of Chile defined a "risky debt" as a high debt to income ratio. Accordingly, the "negative financial margin" is the event in which the total spending of households exceeds their incomes in 20%, and the "monthly debt service" exceeds 50% and 75% of their income. In this scenario, 13.6% of Chilean households present a negative financial margin and a financial burden over 50% of their income, a group that concentrates the 20% of the total debt of households. The share of households with a financial burden over 75%, on the other hand, reaches 9.5%.

The question now is: what are the reasons explaining debt levels? There are several ways to tackle this issue. Ruíz-Tagle and Vella (2010), for example, studied the relationship between the Chilean financial sector and household indebtedness, assessing the role of the relaxation of borrowing constraints as a potential inducer to higher levels of both consumer and mortgage debt. They define households with credit restriction as those that: a) have applied for a credit and have been rejected, or b) have not applied because they thought it would be rejected.[82] Their econometric analysis reveals that the access to credit is determined by education level, housing assets and employment contract, all of them associated with the permanent income of households. Thus, for example, they estimate that the probability for a household head with primary education to face credit restrictions is 3% higher than a household head with elementary education. Following this logic, the possibility of facing credit restrictions of a household head with an employment contract decreases in 5%.

Another way to address debt levels is to estimate their main determinants, which has been the concern of most scholars. In general, scholars recognize that models estimating both default rates and over-indebtedness are very heterogeneous.[83] Among these estimations, there is at least one important remark that stands out as a consensus, which is that income related variables are the most important determinants of debt levels. Thus, for example, Fuenzalida/Ruiz-Tagle (2009) found that the income obtained through te employment is one of the most important factors explaining the over indebtedness of households. By the same token, Alfaro/Gallardo (2012) found that the only significant variables for both mortgage and consumer credit default are income and income-related variables, while individual and demographic variables only have effects that vary between the types of debt. Thus, the level of education

[82] It is interesting that this conceptualization includes the expectations of households. Nevertheless, due to the construction of the data, it is impossible to distinguish which is more important. Furthermore, it is important to mention that sometimes people apply for amounts of credit that are per default above their possibilities.

[83] Meaning that results change depending on the source of data and the years of the survey; second, most models have a small R^2; and third, their marginal effects are still economically relevant. Moreover, most models have a potential bias since they consider only those households that have debts.

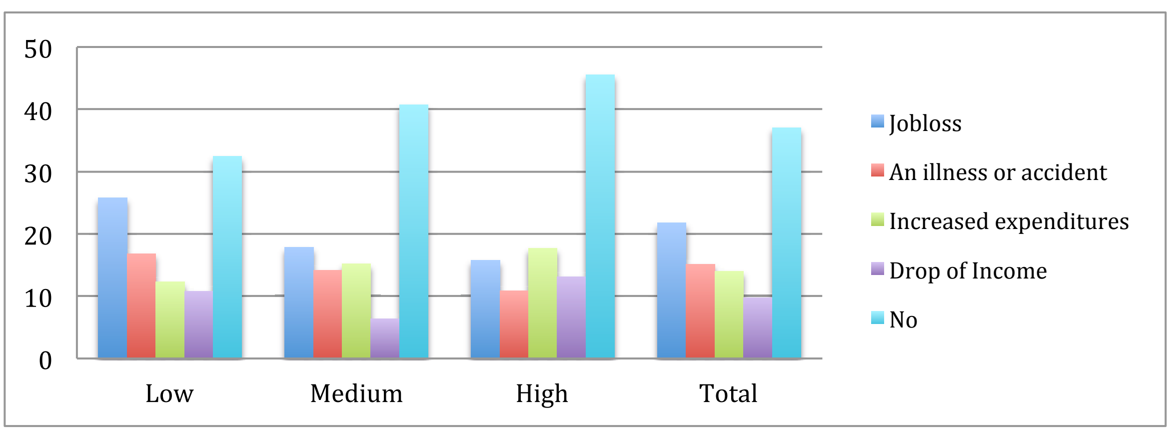
affects the mortgage default more significantly, while the age of the household head and the members of the household are more important in the case of consumer credit default (Alfaro/Gallardo 2012).

A second feature derived from existing estimations is that "income shocks are more prone to affect poorer consumers. This happens because, at the aggregate level, unemployment affects individuals differently. Assessing this issue, for example, Fuenzalida/Ruiz-Tagle (2009) estimate the effect of aggregate unemployment on the probabilities of individual unemployment and find that men have a 30% lesser probability of losing their jobs than women at any moment, individuals with superior education have around 30% less probability of losing their jobs than those with secondary and elementary education, and young workers are also more likely to lose their jobs. Including these probabilities of losing their jobs, the authors find that the number of households under financial stress increases between 13% and 16%, while the risky debt increases from 20% to 25%.

In any case, due to the concentration of the debt on the high income households, an increase in unemployment rates could be translated into a significantly rise in financial risk only if it affects the higher income groups, which is, in turn, very unlikely to happen (BC 2010; Ruiz-Tagle/García/Miranda 2013; Alfaro/Gallardo 2012).

There is, in general, no doubt that "income shocks" are the main factor explaining debt levels and default rates, and these might have several sources, which are not appropriately addressed by these estimations. We can get a more precise picture of the reasons that can lead to a default from the EFH survey 2011/2012. The survey shows in the first place that "job loss" is by far the most important reason behind people´s defaults, followed by "health-related" problems and "higher expenditures". These causes are of course stratified, and "job loss" and "accidents" affect more those workers from low income groups, while higher expenditures seem to be more important for high income groups.

Figure 31: During the Last Twelve Months, did Any Event Prevent You From Paying Your Debts?



Source: Data from EFH 2011/2012

Assessing the role played by different “shocks” or “structural factors” in explaining debt levels, Ruiz-Tagle/García/Miranda (2013) provide by far the most complete assessment of the determinants of debt levels. Their study uses the Social Protection Survey (EPS) and the Household Financial Survey (EFH) in different years to estimate the role of different “shocks” in a) the debt to income ratio, b) the probability of becoming over indebted in a cross sectional perspective, and c) the probability of becoming over-indebted over two periods.

Shocks are operationalized as dummy variables in the models. “Income shocks” are drops of income generated by unemployment suffered by any household member; “health shocks” take place if a household member was hospitalized or underwent through surgery; and “educational shocks” take place if a household member studies at the university.

For the EPS 2009, the authors report that the effects of “health shocks” are not important for any of the indicators. Income shocks, on the other hand, are relevant to determining the levels of debt, being significative for all models except the total debt to annual income ratio. These shocks are not altered with the introduction of socio-demographic variables. The most important demographic factor across models for different years is the number of household members, which seems to reduce debt levels. As expected, income quintiles are the most powerful predictors, which diminish the effect of all other variables when included, showing that higher incomes predict less levels of debt.

The results for other years are similar. “Health shocks” do not seem to be relevant to explaining debt to income ratios, and “income shocks” are relevant to explaining the debt ratios of non-secured debt. These became more important after the 2008 crisis, augmenting their coefficient from 0.16 in 2006 to 0.39 in 2009. “Educational shocks”, on the other hand, are relevant to estimating the total debt to annual income ratio in 2006 and 2009. Taking the EFH 2009, educational shocks are significant in terms of the non-secured total debt to annual income ratio and total monthly debt service. This coincides with the years of the educational boom, diminishing its effects by 2009 when more students obtained student loans to afford their college education degrees. Health shocks, on the other hand, are relevant for the same years to explaining the monthly debt to income ratio.

In relation to the probability of being over indebted (80% total debt to annual income ratio and 50% for the monthly debt service), the results are heterogeneous. For the EPS 2009, “health shocks” seem to be relevant for both indicators but their effects vanish with socio-demographic controls. “Income shocks” seem to play an important role but their effects also diminish with the introduction of income quintiles (this might happen because the risk of being unemployed in Chile is very much determined by income levels; see Fuenzalida/Ruiz-Tagle (2009)). An important difference with regard to the previous models assessing debt levels is that socio-demographic factors seem to be more important to estimate the probability of being over-indebted. Years of education, age and having a family, they all reduce the probability of being over-indebted, even when controlled by income quintiles.

Table 9:The Determinants of Debt Levels, Summary

		Health shocks	Income shocks	Educational shock
Levels of Debts	Total Debt to annual Income ratio	-	-	-
	Non secured debt to annual Income ratio	-	32%	-
	Monthly total debt to income ratio	-	121%	-
	Monthly non secured debt to income ratio	-	133%	-
Probability of being over indebted	Total Debt to annual Income ratio	-	-	3.10%
	Non secured debt to annual Income ratio	-	-	1.6
	Monthly total debt to income ratio	3.20%	-	-
	Monthly non secured debt to income ratio	-	-	-
Variation of indebtedness between 2006 and 2009	Total Debt to annual Income ratio	3.20%	-	1.90%
	Non-secured debt to annual Income ratio	1.90%	-	1.40%
	Monthly total debt to income ratio	3.30%	-	-
	Monthly non secured debt to income ratio	2.30%	-	-

Source: Table taken from Ruiz-Tagle/García/Miranda (2013)

With regard to the probability of becoming over-indebted in 2009 while not in 2006, the results are also heterogeneous. “Health shocks”, for example, positively affect the probability of becoming over indebted in 2009, being stronger for total levels of debt than for non-secured debts. “Income shocks”, on the other hand, do not exert a significant effect on the possibility of becoming over indebted from one period to another in all models. But “educational” shocks play a significant role in the probability of becoming over indebted, only when measured with the total debt to annual income ratio.

Summarizing these findings (table below), one can say that the results of these estimations are heterogeneous, but there are some clear relationships that are worth exploring. In the case of cross-sectional data, health shocks, unemployment and educational shocks are important in explaining household indebtedness, although in different ways. Health and educational shocks are consistently important in explaining the probability of being or becoming over indebted, but they are not important in explaining debt levels. In this respect, income shocks are by far the most important factor, because the incomes have a direct effect on the “debt to income ratios”. Moreover, as the authors argue, lenders implement more restrictive policies when unemployment is higher and consumers can also anticipate drop in income.

The important role of income-related variables in determining debt levels has to do with the fact that indebtedness increases when income drops. But these estimations do not say too much about debts themselves. An interesting clue provided by these estimations is that there seems to be a relation with the commodification of education and health, which goes in line with the idea that the privatization of risks exerts an important effect on the budget of households. The particular mechanisms that explain how this happens, however, will be assessed in part III of the dissertation. Now, I seek to complement these estimations by exploring the relation between socioeconomic variables and the likelihood of having different types of debts.

6.3 To Become indebted or not, that is the question

In general, estimations of debt levels are based on the assumption that people already have financial obligations with different institutions, and the underlying idea is to estimate what factors bring about changes in debts levels in relation to income. That is why most studies use a sub-sample of households that actually have debts. But there are no estimations of why people might have acquired those debts in the first place. Trying to tackle this issue, I use the EFH 2007 and perform logistic regressions to assess the likelihood of having different types of consumer credit, such as department stores, bank consumer loans and bank credit cards.[84]

The analyses presented here consider the household as the unit of analysis, represented in the database by 3,828 heads of households that are expected to provide relevant information. A dummy variable was created for each type of debt, with value “1” when households report an amount of debt over 0 and “0” when the amount of debts is 0 or information is not reported.[85]

As socio-demographic control variables, I included gender, age group, educational level and number of household members. Then, I successively included the number of household members generating expenditures in education, occupational status, income group and homeownership. The underlying idea behind including “the number of household members generating expenditures in

[84] I use the EFH 2007 because it contains the information of household members generating expenditures on education, and also because it reflects the debt levels previous to the crises in 2008 and regulations of interest rates carried in 2012 (that excluded many families from the financial sector).

[85] The analysis is carried in the software Stata 13.1 using the command *svy:logistic* for complex survey data. Tables in appendix present *Odds ratios*. The analyses are run with and without *weight* factors, showing similar results in most cases. The only exception is for department store debts, for which educational levels are significant and positively related factors. This might occur because the survey oversamples households from the high-income group.

education" is that existing estimations that include "educational shocks" (a household member studying at the university) overlook the role of expenditures on education in two ways. Firstly, because many families send their children to "subsidized" and "private" schools, and spend considerable amount of resources on educating their children. Secondly, because many students that enter the university acquire long-term educational loans that are not reflected in the monthly debt to income ratio. In order to assess the role played by current expenditures on education, we introduce a categorical variable based on how many household members actually create expenditures on education. This would portray both school and college expenditures. Furthermore, this is not considered a "shock" since families incorporate these payments into the monthly budget for several years (12 in the case of subsidized and private schools and at least 5 at college). The categorical variable considers "none", "one" and "more than two" members generating expenditures. Furthermore, the variable "Homeownership" is included to assess the role of "being" or "becoming" homeowner in the case of those paying for their houses (which includes bank mortgages and government housing loans). The results are reported in appendix E.

For the three types of debts analyzed (department store debt, bank consumer loan and bank credit card debt), being a male is significantly and positively correlated with the odds of having a bank credit card, everything else equal, but it is not significant for the other types of debt. With regard to age, being "over 65" is the only significant age group when controls are added, and in comparison to those heads of households under 35, they are less likely to have both department store credit and bank loans (the relation is not significant for bank credit cards). Educational level, on the other hand, presents different results. While higher levels of education increase the odds of having a bank credit card in comparison with those heads of households that only have elementary education, only having secondary education or a college degree increase the likelihood of having a department store debt (in comparison with those that only attended primary school). Unlike bank credit cards, having a graduate degree is not significant to explain the odds of having a department store debt. Finally, the effects of educational levels are significantly and positively correlated with the odds of having a bank loan until income is added as a control variable. The reasons for this are not entirely clear, but one can argue that this may relate to supply controls in at least two ways. On the one hand, it might be explained by the fact that lenders use educational level to assess qualities different from income, such as economic stability, pre-disposition to cancell their debts, or the ability to find a job in case of unemployment. But, on the other hand, the model measures the effect of family income, while lenders care about individual income for which educational level serves as a proxy. In this sense, specifying the effect of education on the odds of having debts would require to deeppen into the classification systems used by these lenders.

The odds of having a department store debt augment with the number of household members, but in the case of bank loans and credit cards, additional households' members are not significant when income variables are added. As I will venture in chapter 9, this relates to the fact that the utilization of department store credit cards is directly related to the density of family networks and family-related social commitments.

An important factor seems to be the number of households' members generating expenditures on education, which is significantly and positively related to the odds of having the three types of debts. Having one household member generating expenditures on education increases the odds of having a department store debt, while more than two household members generating these expenditures increases the odds of having a bank loan or bank credit card debt, even when income controls are added. As I will argue in the last part of the dissertation, this might occur because expanding education will put a direct pressure on the budgets of Chilean families that allocate higher shares of their discretionary incomes to cope with educational "arms race".

Being employed is significative and positively correlated with having a bank loan debt, while it is not significant in the cases of department store and bank credit card debts. This is something one can expect, since bank loans are usually solicited and consumers are constantly re-evaluated, while credit card holders have available room in their balances regardless of their occupational status.[86]

Income groups are also significantly and positively correlated with the odds of having bank consumer loans or bank credit card debts, but not with the odds of having a department store debt. This goes in line with the lending policies and framing techniques deployed by banks and department stores. While the former have more demanding income requirements, department stores have very flexible policies and lend money to very low-income consumers, and even to groups that do not receive incomes at all, such as housewives.

Finally, homeownership has a significant positive effect on the odds of having consumer debts, although it does it in different ways. Currently "paying one´s home" increases the odds of having bank loan debts in comparison with "not owing a home" at all (living with a relative or renting). In a similar vein, "homeownership situation" has a significant effect on the odds of having a bank credit card debt, although it operates in different directions. While being "owner" of an already "paid home" decreases the odds of having a bank credit card debt, being "owner" but still be "paying for one´s home" augments the odds of having these debts in comparison with non-homeowners.

Similarly, "still be paying for one´s home" augments the odds of having bank loans, but owing an already "paid house" does not exert any significant effect on the odds of having bank loans. Finally, being homeowner exerts a positive and significant effect on the odds of having department stores debts, regardless of whether one is currently paying for the home or it is already paid.

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[86] It is important to keep in mind that the dummy variables consider if the household has a debt, which is different from saying that they have or do not have a credit card.

The effects of homeownership on the odds of having different types of consumer debt will become very evident in the next chapters. As I will show in part II of the dissertation, expanding homeownership has been one of the main driving forces of financialization for both poorer and middle class families. Chileans are, in general, very inclined towards the idea of improving, decorating and furnishing their “own homes”, while they seem more reluctant to make any transformations or investments when they do not owe their homes. This is why becoming a homeowner and moving to one´s home will turn out to be a crucial turning point in which people start using bank loans to make home improvements in the case of better-off families. Department stores, on the other hand, will be systematically deployed to buy home appliances across all the social structure. Finally, credit-stories will reveal that people paying for their mortgages have to make extra efforts to improve their homes, resorting mainly to bank loans to make major transformations.

Summing up, educational levels and income can be considered as supply control variables, whose signs and significance make perfect sense in the light of lending policies and segmentations of the market. But educational expenditures and homeownership suggest that there are other phenomena at stake, which are usually neglected. Being a homeowner might be a supply factor because it means that consumers actually have assets (collaterals). But most people in Chile are homeowners, and homeownership is still significant when income variables are added (the most important supply control). In the next chapters, I will show the crucial connection between being a homeowner and acquiring consumer debts across different income groups. Finally, these analyses also provide interesting clues about the importance of health shocks and expenditures on education in increasing debt levels, as well as in the odds of generating these debts. This raises the question about the particular mechanisms underlying these relations, which will be further assessed in part III of the dissertation.

In general, the structural factors determining default rates and over-indebtedness are of crucial interest in understanding how the financialization of consumption turns debts into a new source of risks, especially for the less protected families. Nevertheless, although this provides the general picture of the indebtedness of Chilean families, it tells us, however, too little about why they acquire these debts, the consumption practices used with different types of credit, how they take risks, make calculations and handle their debts. If the “determinants” of debt levels in Chile reviewed here make any sense (or not), is an empirical question that has to be grasped from a different angle. In the following chapters, I will further explore these relations and suggests new venues to think of the financialization of consumption in Chile by a) looking into socio-cultural dynamics shaping consumption and financial patterns, as well as b) by uncovering the “black box” of households and their actual financial practices. The question that concerns this work now is why and how people consume with credit in contexts of improvement, and how this relates to the determinants of debts sketched here.

PART II

Growth, Inequality and the "Status Anxiety" Hypothesis

INTRODUCTION

Why do people expand their consumption, and why do they even acquire debts to do so? If one cannot resort to "wage stagnation" to explain the indebtedness of Chilean consumers, what is the role of economic growth and inequality in this process?

I have already argued in chapter 5 that the indebtedness of Chilean families has been directly related to the expansive cycles of the economy and that, accordingly, many people seemed to have acquired debts in contexts of improvement and positive expectations. But why do they acquire consumer debts at all?

A simple answer to this question would be that Chileans actually take credit *because* they are "doing better", and that, in this context, it is rational to acquire debts for two reasons: i) consumers smooth their consumption throughout the life cycle by acquiring and accumulating assets and wealth during their work-life; and ii) because positive expectations are a crucial condition to acquire debts.

There is, of course, some truth in these statements: most Chileans do not use credit to deal with income shocks but to expand their purchasing power; they use them to acquire a package of durable goods throughout their life-course, and the financialization of consumption has been marked by positive expectations with regard to the economic cycle. But what does that tell us about the reasons people have to consume with credit? What are then the institutional and political foundations behind the rising debts of households? Is it not the same to say, "People acquire debts because they want to"? In other words, with this type of answer, as Abbott (2004, p.35) puts it, "Essentially, microeconomics is telling us that if we can explain what people want to do, it can then explain that they do it. So what.".

Furthermore, that people smooth their consumption throughout their life-course might be true, but the question is "why?" As it will be shown, decisions over the life cycle are very important to understand the financialization of consumption not because consumers make a rational planning of their consumption, but because there are normative expectations associated with life-transitions and appropriate standards of living. Indeed, most people in Chile do not invest in expensive durables (only 16% has mortgages) but in home appliances and smaller items that are replaced once in a while (provided that they are not buying clothing or paying-off other debts). Moreover, it is true that there should be at least some certainty with regard to one´s future income, but most people do not think of debts in this way and rather resort to simple heuristics to assess their financial capacity.

To answer the questions posed here, I rather embrace a different point of view, which is that in order to understand the financialization of consumption it is necessary to *embed* consumer´s decisions in their real social context, i.e. within their ongoing social relations (Granovetter 2002), relevant institutions (Fligstein 2001), and cultural templates (Zukin/DiMaggio 1990; Beckert 2007). In general terms, this means that it is necessary to account for the role played by growth, inequality and the privatization of risks alltogether in shaping material practices in the domestic sphere. More specifically, it means paying attention to the intertwinement of people´s aspirations, their normative expectations and shared beliefs.

Hence, my answer to the question of *why people consume with credit in contexts of improvement* takes these ideas seriously and anticipates the following working hypothesis:

> The fact that standards of living grow at a higher pace than wages creates a gap between aspirations and incomes. This gap raises a major concern about “rank”, “achievement” and "security" that I called -borrowing de Botton´s (2004) concept- "status anxiety". The status anxiety of Chilean families is expressed in two different but related concerns: the will to take part in the benefits of growth, and the fear of falling behind. These two sources of status anxiety exert different effects on the financial and consumption practices of households. The former creates pressures to perform belonging to an *imaginary middle class* that demands ever-expanding standards of consumption; and the latter pushes people to deploy "position-taking" strategies and invest increasing shares of their budgets in improving or ensuring their positions in society. Undertaking these endeavors, most Chilean families progressively incorporated consumer credit as an expansion of their purchasing power.

Indeed, the idea that mismatches between expectations and actual income usually take place in contexts of growth, and that this produces “status anxiety” or, broadly speaking, social unrest, is not new at all. Classical authors from the second half of the twentieth century such as Galbraith (1999) and Inglehart (2007) argued that problems of a different nature arise when a certain threshold of affluence is reached. This not only relates to a shift from material concerns to post-materialist values, but also to the fact that surpluses or affluence bring its own problems and phenomena, such as fashion, as classic social theorists Veblen and Simmel suggested (Simmel/Levine 1971; Veblen 1994).

Broadly speaking, social theorists such as Marx or Tocqueville made a similar point when arguing that revolutions, for instance, take place when there is a gap between rising aspirations and actual deprivation in contexts of prosperity (Davies 1962). From this perspective, the notion of “status anxiety”, as I used it here, resembles the concept of “relative deprivation”, according to which actors perceive a discrepancy between “the goals and conditions of the life to which they believe they are justifiably entitled” and “the amount of those goods and conditions that they think they are able to get and keep” (Majeed 1979, p.141). In this regard, no one could summarize the perspective adopted here as Marx did:

> *“A noticeable increase in wages presupposes a rapid growth of productive capital. The rapid growth of productive capital brings about an equally rapid growth of wealth, luxury, social wants, social enjoyments. Thus, although the enjoyments of the workers have risen, the social satisfaction that they give has fallen in comparison with the increase enjoyments of the capitalist, which are*

inaccessible to the worker, in comparison with the state of development of society in general. Our desires and pleasures spring from society; we measure them, therefore, by society and not by the objects which serve for their satisfaction. Because they are of a social nature, they are of a relative nature." (Marx (2012), quoted in Davies (1962,p. 5)).

According to this perspective, the "status anxiety" hypothesis brings together the main insights of consumption sociology and political economy by connecting the role played by broad institutional arrangement, inequality and the "everyday making" of the standards of living. Following this idea, this part of the dissertation is devoted to showing how the first source of "status anxiety" -the "will to participate in the benefits of growth"- illuminates the financialization of consumption. The role played by the second source of "status anxiety" will be addressed in part III.

CHAPTER 7 INEQUALITY, STANDARDS OF LIVING AND SOCIAL COMPARISON

The current chapter anticipates the "status anxiety" hypothesis in five steps. Firstly, I outline major trends in inequality in Chile during the last twenty years in order to magnify the inequality we are talking about. Then, I provide international evidence to support the idea that inequality plays a major role in shaping people´s indebtedness, even though the way this happens has not been empirically proven. To fill this gap, I will then depart from standard economic explanations and rely on sociological approaches to show how inequality could possibly affect the financialization of consumption in Chile. Fourthly, from this I move on to look in more detail into the distribution of the benefits of growth in order to put the role of material improvements of poorer consumers in perspective. This provides the key insights to show in the last section how these improvements and inequality shaped the financialization of consumption among poorest consumers.

7.1 THE EVOLUTION OF INEQUALITY IN CHILE

Chilean families benefited from sustained economic growth during most of the nineties and the 2000´s, experiencing an important improvement of their material condition associated with an increase of real wages and targeted social policies. This translated -as the chart below shows- in that an important share of families moved out of poverty, as well as processes of upward social mobility and transformations in the social structure. This raised the question about why people acquired debts if their economic situation is better than it was in the past, showing that the acquisition of consumer debts in Chile is less related to times of crises and expands in times of prosperity. In this scenario, one could expect inequality to play an important role in explaining the social dynamics underlying people´s behavior in contexts of growth. But what inequality are we exactly talking about?

Source: Data from the Socio-economic Survey CASEN[87]

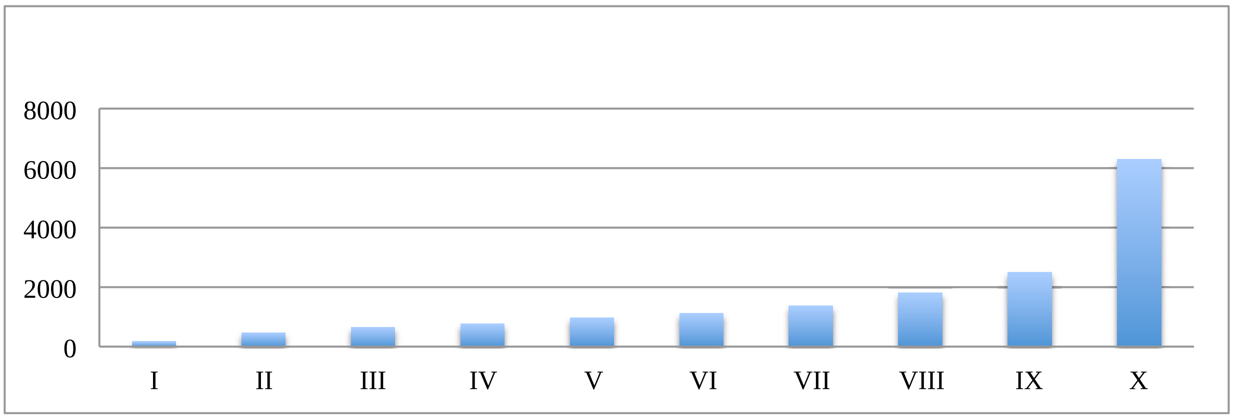
Inequality in Chile is a historical phenomenon. As Contreras (1999) shows, the per capita income Gini coefficient between 1957 and 1996 decreased under 0.50 only during the government of Salvador Allende in the early 1970´s. Adjusting by economies of equivalence, Contreras shows that the magnitudes of inequality have been very stable throughout many decades. At least in the last two decades, as I argued before, the benefits of growth were unevenly distributed and wealth concentrated on top earners, high

[87] Poverty refers to the share of households whose members do not satisfy "basic needs" according to a set of goods. The "poverty threshold" for urban areas in 1990 reached around USD 120, while in 2011 it reached around USD 150 (prices of 2011). Indigent accounts for those households whose members do not satisfy "minimum alimentary needs". The "indigent line" for urban areas in 1990 reached around USD 65 and around USD 75 in 2011 (prices of 2011).

skilled workers and owners of capital. In this scenario, the sharp reduction in poverty coexisted with persistent levels of income inequality, to the extent that the Gini coefficient for the period 1990-2011 fluctuated between 0.52 and 0.58.

In general, as Solimano/Torche (2008) argue, the underlying problem in Chile seems to be the excessive concentration of income on the very top of the income distribution, basically because income inequality among the first nine income deciles is much less pronounced when the richer 10 percent is excluded, as one can immediately notice in the chart below.

Figure 32: Average Household Percapita Monthly Income by Income Decile 2011, Excluding Government Transferences (average USD 2011)



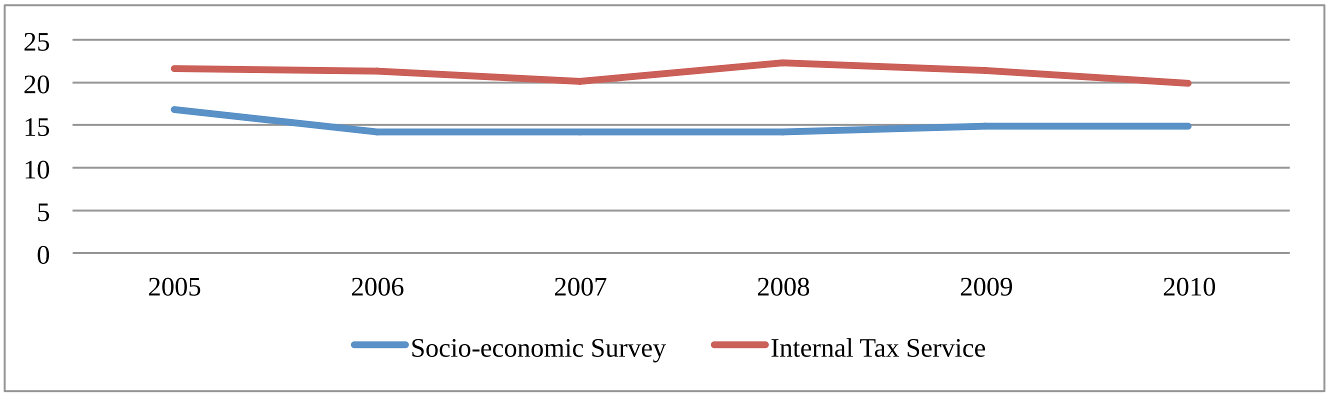
Source: Data from the Socioeconomic Survey, CASEN 2011.

But this is still an inaccurate picture. Data collected through self-reported income surveys underestimate the levels of inequality in important ways. This happens because rich families tend to understate their incomes, but more importantly because income data do not include any form of capital returns. This is a crucial issue since the Chilean tax system created during the Pinochet era allows investors to avoid paying taxes on their profits, provided that these are not distributed among shareholders and kept in a specific fund that is meant to foster investment called FUT (Fund of Tributary Profits). Since income taxes are much higher than corporate taxes (40% and 18% respectively), there are strong incentives to keep these profits in the FUT and not declare them as part of incomes. Nevertheless, in the end, these non-distributed profits do not necessarily foster investments, but become liquid capital of companies, raising their value on the stock market and benefiting shareholders through higher capital gains that are not subject to taxation (López/Figueroa/Gutiérrez 2013).

Tackling these issues, López/Figueroa/Gutiérrez (2013) collected reliable income data from the Internal Tax Service (Servicio de Impuestos Internos) and estimated the real wealth of top 1%, 0.1% and 0.01% earners considering their capital (or non-distributed profits kept in the FUT). As the chart below shows, the participation of the total income of the richest 1% for the period 2005-2010 increases at least

5% when calculated with data from tax revenues rather than from self-reported income, without considering yet the non-distributed profits. Thus, while according to the national socio-economic survey, the average share of total income that the top 1% concentrates is 15.1; this figure rises to 21.1% average with data from Internal Tax Services. Compared to 17 countries for which there are available data, the authors report that Chile´s concentration of wealth on the top 1% is 20 percent higher than the second most concentrated country, the United States. In this scenario, the Gini coefficient for 2010, for example, rises from 0.55 to 0.58, which means that inequality in Chile is even higher than what is usually reported.

Figure 33: Share of Total Income of Richest 1%



Source: Data taken from López/Figueroa/Gutiérrez (2013)

Finally, if non-distributed profits of private companies are included, one can witness even more pronounced levels of wealth concentration, where in 2010 the richest 1% concentrated 31.1% of the national income. Taking into consideration these non-distributed profits, the Gini coefficient jumps from 0.55 (calculated with income surveys) to 0.63.

In this scenario, there are good reasons for thinking that inequality might play a key role in shaping the financial practices of Chilean families. The question now is how does inequality exactly affect the indebtedness of people across all social strata in contexts of general material improvement? Showing this from a sociological perspective is still a pending issue in the specialized literature. To start with, one can rely on some international evidence and the works of economists that sought to quantify this relation.

7.1.1 Inequality and Debts in the International Evidence

There is strong evidence suggesting that inequality plays a crucial role in the financialization of consumption by radicalizing the effects of social comparison. Nowadays, this perspective gained salience to account for the rising levels of household indebtedness in the US for the sake of rising inequality. This is somehow expectable because income inequality is after all a form of social differentiation where one group -top earners- shapes the consumption dynamics of the rest, the non-rich (and according to sociologists “vice-versa”). In this vein, in strong contrast with the Privatized Keynesianism hypothesis, some economists[88] followed the main intuitions of Duesenberry´s “Relative Income Hypothesis” that stressed the role of social norms, interdependence and reference groups in the definition of consumption levels. Based on this hypothesis, they offer an alternative to Friedman´s “Permanent Income Hypothesis” and Modigliani´s “Life-Cycle Hypothesis”, estimating the effects of inequality on consumption patterns. To make this contrast clearer, these studies can be encompassed under the name of the “trickle-down consumption” hypothesis. In concrete terms, it is a “soft” version of Veblen´s theory of conspicuous consumption, which states that concentration of wealth at the top of the income distribution creates pressures in the form of cascades on those consumers behind in the ladder to imitate their consumption patterns. Since wages remain stagnant but pressures to consume increase, consumers systematically use credit to close the gap between aspirations and constraints.

Cynamon/Fazzari (2008), for example, argued that consumer preferences should be understood as endogenous and historically contingent. They stress the role of “consumption norms” created through the media exposure and reference groups, mimetic behavior in contexts of uncertainty, or simply habits and lifestyles, which affect the utility of consumption. In a similar way, Barba/Pivetti (2009) hold that acquired standards of living tend to determine their consumption levels, explaining the inelasticity of workers´ consumption in the face of income shocks.

This framework has already been put at work by Christen/Morgan (2005), who argued that “the need for conspicuous consumption to maintain or increase social standing within a community, combined with *increasing income inequality*, leads to an escalation of household debt, all else equal.” (Christen/Morgan 2005, p.4). Studying 84 quarters of aggregated data between 1980 and 2000 in the US, the authors find a strong and positive correlation between income inequality and total household debt, as well as different types of debts. Moreover, this effect is especially stronger for non-revolving credit and these effects are also stronger than those associated with changes in interest rates. For example, they

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[88] According to the “Life-Cycle Hypothesis” individuals redistribute their purchasing power among different periods of their lives in order to maximize their lifetime utility through saving and borrowing. Since incomes are usually smaller at early stages of the life-cycle, increase in the middle, and draw back with retirement, consumers seek to smooth their consumption by borrowing during the early low-income stage, build wealth and repay their debts during the high income-stages, and spend savings during retirement. Besides the traditional critiques to the “expected utility theory”, what is problematic of economic explanation is that the underlying assumptions that individuals have expectations of increasing future incomes and that borrowing and consumption raise private household utility are both questioned in the context of flexible labor markets and changing economic cycles. (Montgomerie 2006).

document that the impact of a 10% increase of the gini coefficient on the level of non-housing debts is 44% bigger than the effect of interest rates.

Bertrand/Morse (2013) provide by far the most complete account of the trickle-down consumption effect by researching on the consumption expenditures of "non-rich" consumers and showing that "middle income households consume a larger share of their current income when exposed to higher upper income and consumption." (Bertrand/Morse 2013, p.1). This effect is also more important among households in the middle of the income distribution, i.e. between percentiles 20th and 80th. (They discuss five alternative explanations to this finding, summarized in appendix F)

The most convincing explanation for these authors is a modified version of the "supply-driven demand" hypothesis, according to which the consumption of richer consumers trigger a rising demand for more expensive goods (while other goods remain unchanged), which might operate mainly via social comparison. Following a similar logic of the “catching up with the joneses” hypothesis (people emulate their main reference groups, mostly their neighbors), they make sense out of their findings by relying on Frank´s notion of "expenditures cascades", according to which the consumption of a given household is positively affected by the consumption of those households whose consumption is just above theirs (Frank 2007). This is supported by the fact that the data show that the sensitivity of budget shares to top income levels changes with the income elasticity or visibility of expenditure categories.[89]

Summing up, this evidence shows two things: firstly, that inequality is an important factor behind the rising indebtedness of households. Secondly, that underlying explanations should be found in social rather than individual, economic or physiological factors. Nevertheless, to our ends, it is not enough to point out the existence of high levels of inequality and outline a few hypotheses about how this might have fostered rising indebtedness. There are two main reasons for this: Firstly, this sort of “sociologization” of economics –which I would argue goes in the right direction- has not led to empirical accounts of the relation between household indebtedness and the socially constructed standards of living. Economists are very good at providing estimations of the effects of inequality on other variables, but fall short in showing the particular mechanisms that led people to acquire debts in these contexts. In this regard, for example, most hypotheses reduce consumption to its “emulative” or “conspicuous” forms, providing a partial and poor picture of the social dynamics underlying the successful expansion of consumer debts.

[89] This is further explored by recent analyzes carried out by Kamakura and Yuxing Du (2012), who have shown that the utility of households depends on the changing economic conditions. Classifying goods according to their “essentiality” and “visibility”, they have demonstrated that the relative share of non-essential goods that are publicly consumed decrease in the context of economic recessions, while essential goods consumed under less visible circumstances gain importance.

Secondly, one still has to show how inequality shapes indebtedness in a context where most people experience material improvements, meaning that the basic assumption that wages remain static does not hold true. To close this gap, I outline in the following section a framework to think about the role of inequality in shaping the financial behavior of households in contexts of material improvements and economic growth.

7.1.2 Inequality and Social Comparison

Why does inequality lead to more debts? And what is the role of social comparison in shaping consumption expectations? At this point, one has to depart from the work of economists. Following the suggestions of consumption sociology, happiness studies and psychology, I argued in chapter two that, to tackle this issue, it is necessary to move away from individualistic notions of consumption and utility maximization. There are many reasons for this. As several studies have shown "…judgments of personal well-being are made by comparing one´s objective status with a subjective living level norm, which is significantly influenced by the average level of living of the society as a whole." (Easterlin 1995, p. 36). In this line of argument, assessing the role of comparisons studies have shown, for instance, a negative effect of local average earnings on self-reported happiness (Frey/Stutzer 2002), which goes in line with the idea that people´s income aspirations are formed in relation to social comparisons. Furthermore, reported subjective wellbeing depends, to a great extent, on the gap between reported aspirations and households´ incomes.[90]

From a social-psychological point of view, this happens because the evaluation of goods and one´s situation is always contextual and depends on the possessions and situations of others, as well as the magnitude of our expectations. On the one hand, we know that people consistently prefer to acquire goods of less quality (such as smaller houses) if the ones they own are considered better (bigger) than those of others, rather than having better ones in absolute terms (bigger houses) that are worse in comparison with others´ possessions (Frank 2005a). On the other hand, anxiety and frustration might stem from a gap between people´s expectations and the constraints they face to materialize them, an idea that one can easily extend to the social level. The faster the pace with which a society creates expectations of consumption for their citizens, the higher the likelihood that some of them will be frustrated and will share a feeling that their incomes are not good enough.

In any case, both expectations and the ability to fulfill them, as well as the extent to which the members of a community systematically engage in social comparison, are always socially determined. As

[90] In any case, we still do not know too much about the marginal utility of income and how it relates, for example, with the sources of income (higher incomes coming from more work hours or stressful jobs might not increase subjective well-eing).

the philosopher de Botton (2005) argues, the “anxiety” that stems from social comparison seems to be characteristic of modern societies, and people nowadays are more anxious about their status and position than nowhere else in history. As De Botton study shows, the increase in wealth, food supply, consumer goods, scientific knowledge, physical security, economic opportunities and life expectancy, brought about a rise in levels of "status anxiety" among ordinary western citizens, by which is meant a rise in levels of concern about importance, achievement and income; citing his words, "A sharp decline in actual deprivation may paradoxically have been accompanied by a continuing and even increased sense of deprivation and a fear of it."(de Botton 2005, p. 45) This happens because, unlike pre-modern societies where one´s position in social order is given, modern societies are meant to be essentially “meritocratic”, citizens are considered all “equal”, and people´s success or failure should not depend on their ascriptions but on their own effort. This is at least what we strongly want to believe. [91]

If “status anxiety” refers to the exclusive concern about “rank” and “achievement” that people achieve in modern societies, it is possible to go beyond De Botton and argue that existing distributional arrangements can induce “status anxiety” by unevenly distributing opportunities and constrains, as well as shaping patterns of social comparison and competition. Thus, a concern about rank might be very demanding, for example, when hierarchies become ambiguous in contexts of changing social boundaries (markers of distinction change); or when lifestyles are threatened in cases of lack of a safety net. By the same token, one can expect that in societies where the consumption of “positional goods” expands, for example, people might feel “anxious” about their own possessions and have the feeling of being “falling behind”.

This idea is further supported by the traditional theory of *reference groups*, according to which individuals tend to identify themselves with advantaged groups in societies that have high rates of upward mobility (Merton/Kitt 1997). In this sense, the inducement of “status anxiety” is a crucial way in which the actions of others (especially in the sense of Bourdieu *distinctions* or *position-taking strategies*) create a dissonance between *one´s* position as compared to others, what Lahire (2008) calls “self-distinction”.

These are the basic social foundations that allow social comparison to emerge and become crucial in shaping people´s aspirations. In this scenario, the connection between social comparison and

[91] It is important to avoid confusion and mention that “status anxiety” is different from the notion of “status inconsistency”. “Status inconsistency” occurs when there is an imbalance between the positions of an individual in different status hierarchies (Lenski 1954). In this case, the researcher has to construct scales in order to rank status in different fields -typically education, income and occupation- and look for inconsistencies among them. As a methodological prescription, such scales should be comparable (Hartman 1974). Thus, “status inconsistency” of an individual (such as highly educated but low income) is used to account for other behaviors such as political preferences, migration patterns or alcoholism (Lee/Toney/Berry 2009). Of course, individuals occupying “inconsistent positions” might be quite anxious about their status, but the concern about rank and achievement (status anxiety) might well have many other sources.

consumption becomes clearer because, as Weber/Roth/Wittich (2013) point out, consumption in market economies is not only segmented by socioeconomic strata but it becomes in itself a variable of social segmentation. Thus, following the tradition that goes from Weber to Veblen and to Bourdieu, one can argue that the dynamics of class differentiation are crucial to understand consumption, and the socially constructed standards of living underlying the expansion of consumer credit.

From this perspective, the answer to the question of whether something is “enough or not” has social roots, which is that we arrive at such decisions by comparing our condition with that of a *reference group*, with people we consider as equals (or at least potentially equal) although they are not part of our own groups (Merton 1963). Accordingly, one can say that if credit closes a gap between expectations and incomes, it might be because we have the feeling that everybody else is doing better, and that we are not what we can potentially be. After all, as De Botton puts it, "It is the feeling that we might be something other than what we are - a feeling transmitted by the superior achievements of those we take to be our equals -that generates anxiety and resentment." (de Botton 2005, p. 46).[92]

An important implication that derives from this is that the standards of living against which we contrast our own situation are changing all the time, and those things we recognize as sources of “status”, “necessary” or simply “comfortable”, change in relation to one another. In a metaphorical sense, one could think of the relation between *status*, *necessities* and *wellbeing*, for example, as the forms of colors projected by a *kaleidoscope*. The *Oxford Dictionary* defines a kaleidoscope as a “toy consisting of a tube containing mirrors and pieces of colored glass or paper, whose reflections produce changing patterns when the tube is rotated.” It works by the multiple reflections produced by several mirrors placed at a certain angle from one another. As with the kaleidoscope, the socially constructed notions of *needs*, *wellbeing* and *status* underlying consumption patterns work as a system of relations that reflect upon each other, for which a change in its parts is reflected upon its general form. In simpler terms, if one had asked people in Chile in the early 1990´s to classify cellphones, they would have most likely told you that they were *luxurious* devices for wealthy people; while in the 2010´s having a personal number, being reachable and able to check your emails and social networks 24 hours a day is considered by many almost a *necessity*. This change of a single good from a “luxury” to a “necessary” thing means that with the incorporation of smartphones into the “standard package” the frontier that defines what “needs” are is extended and reflected upon the definition of what “luxury” or “wellbeing” mean as well. This is why a society that experiences growth and a certain degree of affluence is less concerned about alimentary restrictions or sanitary services, and more oriented to the acquisition of technology, beauty products and education.

[92] As a consequence, if it is proximity what generates envy, and we only envy those we consider as equal, one should seriously consider the question of whom do we consider as equal in a society that experiences structural changes.

Now imagine that through a span of twenty years the same change of goods from “luxury” to “everyday” or “ordinary” goods applies equally to a wide range of things and practices such as computers, housing, vacation, internet access, clothing, cars, sports, recreational activities, and so forth. Things get messy and the shape of our kaleidoscope changes in unpredictable ways; consumption expands, lifestyles standards and reference points to compare one another change substantively, to the extent that establishing parameters to assess and classify household budgets in a static way is a complicated -if not impossible- task.

The dynamism of standards of living triggers important social processes. With the total level of consumption ratcheted up across social strata, social codes associated with consumption, people´s expectations and markers of status also change. Moreover, economic growth certainly changes the life of many families and provides them with more opportunities. But in a context of generalized improvement, the absolute social mobility and rising consumption levels of those previously classified as “poor" is not necessarily reflected in a better position in relative terms. As I show in the following section, non-poor people might live better, but they might well still consider that they are just satisfying “basic needs” and feel anxious about their status in society where everybody else is far “better-off”.

The consequence of adopting such relational point of view is that the expansion of consumption is not only driven by the search for “status”, but also through the constitution of shared expectations about what is a proper life, what legitimate aspirations are, how to reach them, and what the markers of success in the quest for the desired lifestyle are. Not taking into consideration these elements is problematic, especially in a country that underwent deep structural changes and economic growth, because it provides a wrong picture of the wellbeing of households that “fall behind” the consumption levels that a society defines as appropriate. If one wants to consider how inequality shapes the financial and consumption practices of households, it is necessary to think in terms of relative rather than absolute measurements.

With these elements now settled, it is possible to move on and elucidate how it is possible that consumers that experience material improvements end up acquiring debts in a systematic fashion, and what that has to do with high and persistent levels of inequality. The next step in this direction is to characterize the material improvements of different socioeconomic groups, and to what extent they benefited from economic growth. With this contextual background, I first explore the financialization of low-income consumers. Later on, in chapter 9 and 10, I address the financialization of the so-called “new middle classes”.

7.2 Growth, Inequality and Credit among the Poor

What is the nature of the material improvements among the poorest families in Chile and how does this relate to rising debts? The sharp reduction in poverty in Chile had different causes. The main source of income of Chilean families are wages, which represent around 80% of monetary income (which includes state transferences and other benefits), and wage earners represent around 70 percent of the labor force (Reinecke/Valenzuela 2011). Seen from the perspective of the marginal contribution of each source of income, it is noticeable that an increase in wages accounts for half of the increase in real wages during the period 1990-2003, while higher incomes of employers accounts only for one fourth. The latter, however, are concentrated on the two richest income deciles and represent a 45% of the increase in income of the top 10 percent, contributing in a considerable way to perpetuate the structure of income distribution. Finally, according to experts, around 12% of the increase of household income is explained by socio-demographics and family changes such as decreasing fertility rates and the creation of new households (Larrañaga , O./Valenzuela, M. E. 2011).

Contrary to what one can expect, the educational boom of the nineties did not contribute to mitigating inequality. Although school coverage rose from 9.7 to 11 years during the same period, the boom of secondary education increased the gap between workers with secondary and higher education, which concentrate most wage improvements between 1990-2003 (Reinecke/Valenzuela 2011). Even though the coverage of secondary education among workers between 20 and 24 years old increased from 53 to 80 percent in the period 1990-2006, it did not translate into higher wages but created an “inflationary effect”. It was indeed the occupational group with 12 years of education (those who finished high school) the one that experienced the smallest increase in wages and higher unemployment rates (Larrañaga/Herrera 2008).

Trends of inequality seemed to have improved after the 2000´s. Between 2000 and 2006 there is a reduction in the income gap among different educational levels and a reduction in income equality in all indicators (gini, q5/q1, d10/d1, p90/p10). Nevertheless, this is not explained by better conditions in the labor market but by two different phenomena: firstly, a reduction in income inequality among workers with different educational levels and a smaller dispersion of wages among educational categories. Income grew more among the less educated, while it decreased in the case of more educated groups. Indeed, the decrease in income of workers with 12 and more years of education takes place in a period of growth. This is explained because the growing number of more educated workers devaluated educational achievement and pushed their salaries downward. This time the devaluation of high-skilled labor went hand in hand with the boom of tertiary education sketched in chapter 4.

The second cause behind the slight decrease in inequality between 2000 and 2006 is an increase in the per capita income of households at the bottom of the distribution, caused by lower fertility rates. This reduction in inequality has contributed to the reduction in poverty, which contrasts with the previous decade where the decrease in poverty was mainly associated with social policies and growth.

Regarding poverty reduction in the period 1990-2006, on the other hand, there are two distinguishable causes. Larrañaga/Herrera (2008) distinguish between growth effect understood as a change in poverty due to the increase in the median income (assuming equal income distribution), and the distributive effect where changes in poverty are originated by changes in inequality (assuming equal incomes for the two periods). Under this logic, they showed that between 1990-1996 growth effect accounts for 95% of poverty reduction, while between 2000-2006 80% of poverty reduction is explained by changes in distribution.

Regarding the late period, Two effects help explain the role of wages in the reduction of poverty between 2000-2006. According to Larrañaga , O./Valenzuela, M. E. (2011), the concentration of labor-incomes and its participation in total income explains by itself at least half of poverty reduction, meaning that the bottom per capita work-incomes grew at the same time they increased their share of total income. Independent work-related-incomes help explain 20% of poverty reduction through share effect, basically because it is a very concentrated type of income whose participation in total income diminished in 2%. In the end, income inequality improves basically because low-incomes increased around 15%, while median household incomes show moderate improvements and high incomes have a negative growth.

Finally, an important factor explaining a third of the increase in income is the demographic change of Chilean households. As the authors previously quoted show, there is a clear negative relationship between the number of household members and income levels. An important difference is that for each income recipient in the top income decile there are 0.8 non-income earners, while such number rises to 3.47 times at the bottom decile. But demographic changes have been unevenly distributed across social strata, where the lower half of the income distribution has seen a drop of 0.35 person per household between 2000 and 2006, accounting for a third of the increase in the per capita income.[93] Ten percent of the 17% drop in the number of children per household in the period is explained by a reduction in the absolute number of children, while the other 7 points are explained by the increase in the number of households.

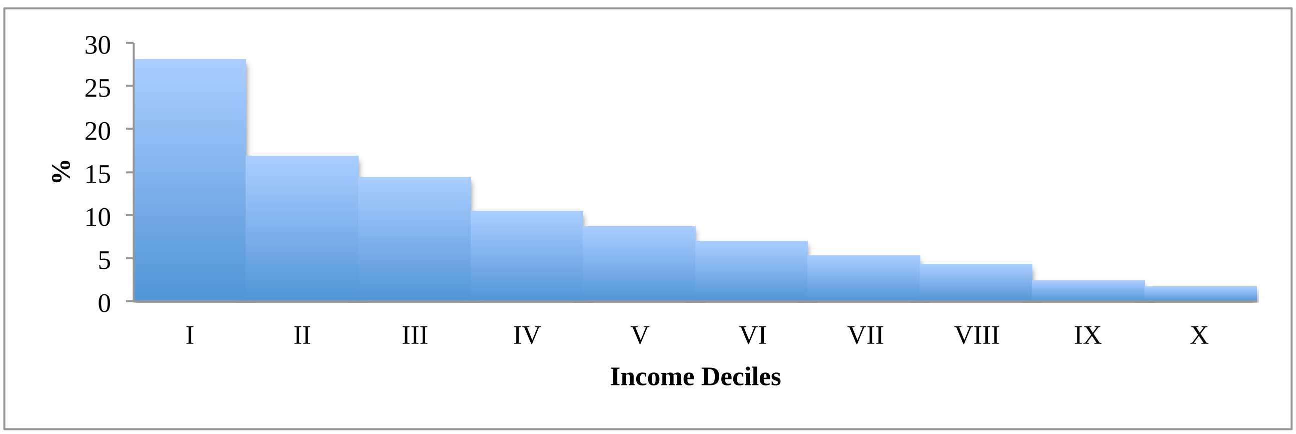
Summarizing, these data show that most improvements in inequality and poverty indicators relate to different effects that are not necessarily related to better wages. In this sense, the persistence of high inequality stems from the scarce valorization of labor. This issue becomes evident in the fact for both years, 1990 and 2006, the share of occupied workers earning less than the average monthly income was higher than 70%, while only the richest 20 percent perceived incomes over the national average (U$583 approximately, values of 2006). Rather, as Reinecke/Valenzuela (2011) show when analyzing the socio-economic survey CASEN for the period 1990-2006, for the poorest families there were no real improvements in labor income, but mainly in higher monetary subsidies. In fact, as seen from the perspective of labor-incomes, the bottom 40% diminished its participation in total income and the 10/10

[93] The general trend since 1960 has been a sort of convergence in fertility rates across socio-economic strata; the difference between the top and bottom income deciles in the 1960´s was 2.5 higher for the later, while such rate diminished to 1 in 2000.

and 20/20 ratios worsened.

To get a better picture of labor-income improvements, if government subsidies are excluded, the share of households that in 2006 earned slightly over the minimum wage in Chile increases from 33.2% to 41.8%, which means that most material improvements among the poorest were the result of targeted social policies. This is important because it implies that although poorest households -many of them creditworthy- experienced material improvements in the last two decades, which were not enough to be successfully integrated into the new consumption levels of better-off consumers, such as skilled and educated workers, and capital owners. Indeed, many of these government transferences are not monetary–fungible money- but rather sanitary, educational and health services provided by government agencies. These represent a relief to the discretional income of these households, which is mainly used to cover basic needs, but do not improve the purchasing power of many families in substantive terms.

Figure 34: Distribution of Monetary Subsidies Among Households by Income Decile (2013)



Source Data taken from CASEN 2013

The trends in material improvement have important implications to understand the dynamics of financialization among low-income consumers. To start with, there is a collateral consequence related to this particular feature of Chile´s social policies. Although very effective in reducing poverty levels, targeted social policies have played a crucial role in progressively financializing low-income populations, since those benefits that represent constant money strands reduce the risk-profile of poor borrowers. A good example of how social policies that aim at correcting market failures have promoted financialization is the introduction of “Pensión Solidaria Básica” (Basic Solidary Pension) in 2008. This subsidy resulted from the lean results of the “individual capitalization” system, when it became evident that around 60% of affiliates to Private Pension Funds (AFPs) would not receive the minimum pension. This monthly benefit (around USD 160) targets the poorest 60% of the population and it includes a special bonus per child that aims at reducing gender inequalities among pensioners. As an unintended consequence, this lean but stable subsidy ended up subsidizing the risk-profile of impoverished retired workers that rely on consumer credits to cope with an important drop in their income and a rise of their necessities.

A more important thing to understand about the indebtedness of the middle-low income groups, however, is the direct effect of social policies on changing the standards of living of the population. With the aid of targeted social policies to the 20 percent poorest consumers -which according to the Family Budget Survey of 2012 consume in average around 45% of their budget only in food and transportation, many families moved out of the poverty threshold (today around the monthly USD 170). With these improvements, standards of living were ratcheted up and new necessities arose in the horizon, such as buying new or better clothing, school supplies and electric appliances for their new homes. But this happens in a context where labor incomes are still not enough to invest in or spend on the wide range of available goods that flooded supermarkets and department stores in all neighborhoods of Santiago, which means that the only option to participate in the "party of consumption" for many is having a department store credit card.

This is a second unintended consequence of growth and social policies. Better access to basic sanitary, housing and educational services promoted by the government for the poorest households were basically not provided with better opportunities in labor markets. Considering that cost of living in Chile is very expensive for most workers that do not earn more than two minimum wages (around USD 900), the material improvements experienced by many Chilean families –at least in the bottom five income deciles- left them on the verge of a new form of citizenship that is centered around the participation in the collective ritual of consumption, rather than the recognition of social entitlements. As I argued before, this incremental but implacable process is exactly what department stores sought to exploit, in order to boost their sales by creating a consumer out of people that can barely cover basic expenditures, but with strong desire to participate in the "party of consumption".[94]

For most people at the bottom of the income distribution that moved out of poverty, the living costs in Chile made their unstable incomes insufficient to catch-up with the available goods produced by trade openness, and displayed in the showcases of department stores at the shopping malls. This is

[94] If we bring this reasoning further, one could think of this system of "credit and low wages" as a sort of feudal system. For these consumers, a credit contract with the lords of commerce –and now finances- becomes the legitimate means to carry the adequate life. These provide shelter, clothing, durable goods and protection against vulnerability stemming from more exposure to labor market volatilities. In this regard, poorer consumers owe their prospective wages in advance, ensuring future discipline, servitude and gratitude to those sub-prime lenders that, paradoxically, have systematically engage in abusive practices, as we saw in chapter 5. This explains why Chilean consumers strive to keep their only source of credit active and seem to have forgiven the gigantic scandal of "La Polar", sub-prime lender per excellence that unilaterally changed the credit contracts of thousands of poor debtors in order to manipulate their debt portfolio, and thus allow them to keep buying in their department stores throughout the country as if nothing had happened.

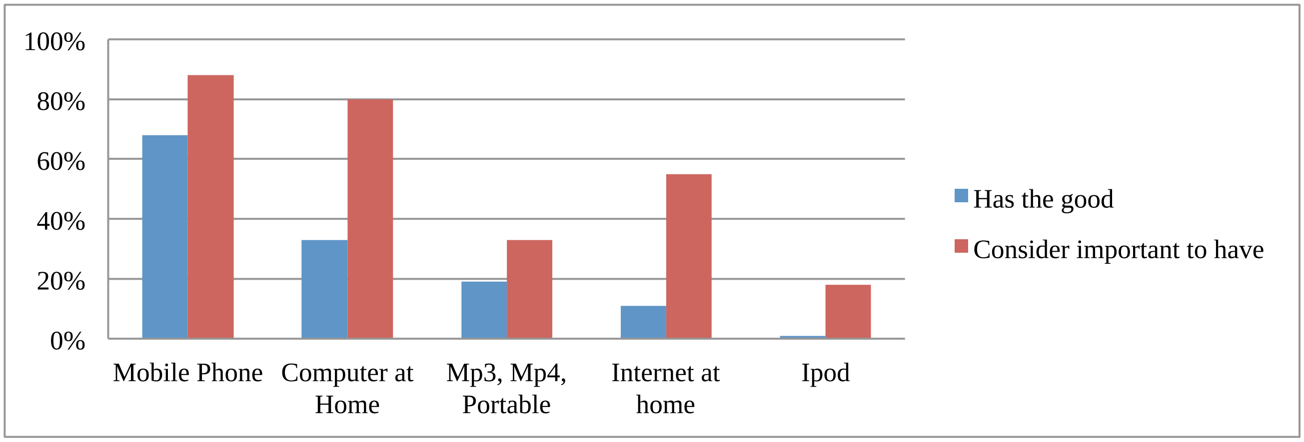
something department stores exploit when realizing that the so-called “bottom of the pyramid” represents an important share of the population that has higher aspirations for participating in the ritual of consumption, but required the appropriate offer. Of course, not all poorer consumers could be financialized, but there is an important share of Chileans that belong to the first three income deciles (most of them earn under USD 850 median income, approximately), that became the target of marketers and department stores in the 2000s.

These consumers are depicted in marketing studies as the middle-low income group, which in Santiago represents around 35.7% of the population. According to a survey conducted by a marketing agency in Santiago, it is a group that feels that their main problems (and of all Chileans´) are “lack of cash” (42%), “low wages” 22 (%) and “few labor opportunities” (21%). In line with the idea that social mobility was not attained with better opportunities, we witness that although an important share of consumers argue that their situation has improved in relation to their parents (39% is better and 37% says it is the same); a big majority thinks that they are not being favored by the “economic growth that the social media talk about” (78%).

In any case these consumers have expanded their consumption in considerable ways. In a normal month in 2007, for example, 23% declared to spend part of their incomes in recreation; 23% buy clothing for family members, 22% have some drinks at a bar, and 18% buy clothing for themselves. This group is not necessarily consuming to show their status by deploying wealth. Although more than 80% declare that never “save money”, their main aspirations are essentially oriented towards family life and -in order of importance- “becoming homeowner” (31%), “that their children become professional” (15%) or “finish their college undergraduate programs” (14%), and “provide a good education to their children” (14%). This is something can expect, since 60% of them have a nuclear family (i.e. a couple with children).

Nevertheless, what they consider to be important has changed, and, for most of them, is still far from being within their reach. As the chart below shows, the big majority of these consumers consider having a mobile phone and a computer at home important (95 and 80%), but less than 70% has a mobile phone and only slightly more than 30% has a computer. More impressively, however, is the fact that more than 50% of consumers consider that having Internet at home is important, but the share that actually has internet is barely 10%. In terms of a “gap” between aspirations and acquisitions, it is important to notice than almost 20% consider having an iPod important, while only 1% has one.

Figure 35: The Gap Between Property and Aspirations, 2007



Source: Data taken from Criteria Research 2007

In this sense, it is possible to argue that the increasing exposure to available goods arguably affected the expectation of consumers (throughout the whole social structure), who assist to the shopping malls not only to consume but go also during the weekends to go the cinema, celebrate birthdays, anniversaries, have dinner or simply "chill out". As scholars have pointed out, the shopping mall represents for the Chilean consumer a space where her/his desired class-identities are performed (that Salcedo/De Simone (2013) call an "imagined middle class"). For many –especially in the case of lower income consumers- these spaces represent the only option they have to carry out recreational activities (meaning that they spend in average more time at the shopping mall), although they face many more restrictions to materialize these rising aspirations. As Salcedo/Stillerman (2010) show studying the practices of young consumers in the most populated municipality in Santiago (La Florida), middle-low income consumers do not appropriate the space in the mall in utilitarian ways (the shopping mall is not inhabited by people that seek to buy), but celebrating everyday life and courtship rituals, or expressing roles and belonging to subcultures, among others. As a consequence, say the authors, since they spend a lot of time in these spaces carrying out these meaningful practices, they are very prone to ending up making unplanned purchases.

But for lower income consumers, this happens not only because their aspirations are too high, but also because the average wage falls short for the sake of the rising cost of living in Chile. A few examples help depict this gap. Already in 2005, when the National Institute of Statistics compared the cost of living in Latin American countries, Chile was the most expensive country in the region, and the expenditures on goods and services were 48% over the regional average. Total levels of expenditures were only surpassed by Argentina (60% over the regional average), whose prices are considerably lower than in Chile as compared in terms of purchasing power parity (INE 2006). According to an international student exchange agency, for example, an average student in Chile should at least spend $1243 monthly, which only includes a room, transportation, food, and $25 to spend freely.[95] In a country where an average worker has to spend at least USD 135 a month in public transportation (considering two daily bus trips and subway riddes), the average wage of most workers is just not enough to materially reproduce and participate at the same time in the standards of living that people consider as legitimate.

Altogether, rising aspirations and more demanding standards of living, higher cost of living and low incomes, seem to explain why the expenditures of the poorest families have been systematically higher than their income during the last twenty years, surpassing in average more than 50% of their income in the first income quintile and fluctuating between 15 and 30% in the second income quintile. Only the richest households (top 20 percent), which according from data of the Central Bank concentrated in 2010 47.2% of total debts, spend in average less money than their incomes. (This raises another issue, which is that if not all debts are meant to close a gap between incomes and desires or necessities (as with the highest income earners), credit-money might serve very different purposes across income groups.).

Table 10: Average Expenditure as a Share of Average Income, by Income Quintile

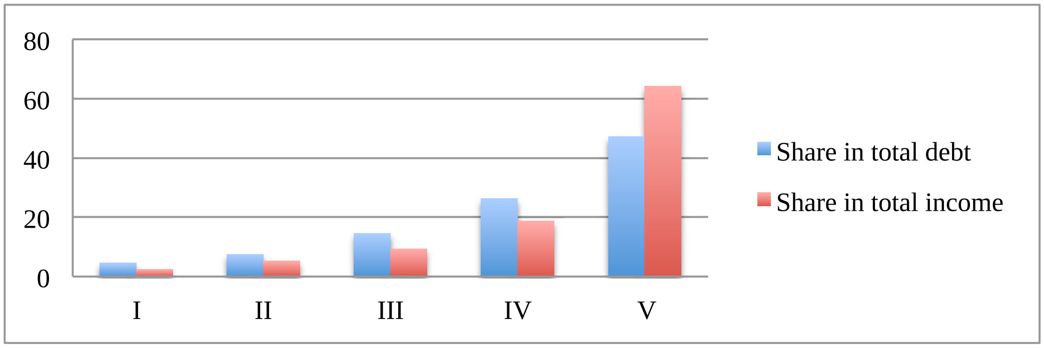
	1996-1997	2006-2007	2011-2012
I	156.3%	152.8%	148.2%
II	121.8%	128.1%	115.8%
III	105.8%	117.8%	109.0%
IV	96.6%	105.9%	98.0%
V	80.6%	90.5%	81.9%

Source: Data from EPF, different years.

In addition, the participation of the 80% of the population in total debts is higher than their participation in national income, a situation that is only reversed in the case of the richest 20%. Thus for example, the participation of the poorest 20 percent in total debts is almost twice their share of total income (4.6 versus 2.5%), while the richest concentrate 47.2% of total debts and 64.2 of total income (Central 2010).

[95] http://www.contactchile.cl/es/descubrir/costo-de-vida/presupuesto-mensual.html

Figure 36: Share of Different Income Quintiles in Total Income and Total Debts, 2010



Source: Data from Central (2010)

The fact that lower income households participate to a lesser extent in total debts should not lead us to think that these consumer debts are less important for families of the bottom 50 percent of the income distribution. To understand this, we have to look into these debts in more detail. According to the EFH survey, in 2009 almost 80% of interviewed households declared that they did not apply for any credit during the last twelve months, something one can expect if we consider that in Chile unemployment rose and growth plummeted in 2009 due to the economic crisis. Among those that did not acquire debts in that year, we find a considerable bigger share of households from the lowest income group (45% of them, versus 30.7% and 25.3% of middle and high-income groups, respectively).[96] However, if we look into the underlying causes, it becomes clearer that this does not mean that poorer consumers are more reluctant to acquire debts than consumers in higher socioeconomic groups. Why did they reject acquiring debts in 2009?

For each income group, around 30% of household heads that did not acquire debts in 2009, declared that the reason was that they “don´t like acquiring debts”. Interestingly, the reluctance among those that did not acquire debts in 2009 is homogeneously distributed across social strata. But there is a highly stratified cause that explains why poorest consumers did not apply for a credit in 2009 in a higher proportion. From the total of households that did not apply for a credit in 2009, almost 55% from the lowest income group indicated that the reason was that they could either not be able to face the monthly installments, or were not confident about being “creditworthy”. Moreover, only 14% of them declared that they “do not need these credits”, versus a 30% and 47% in the medium and high-income groups. This basically means that people in this group would have preferred to acquire more debts, but they faced more

[96] It is important to keep in mind that the Household Financial Survey groups households into these three income groups in order to resemble the real distribution of income: low-income from the 1th to the 5th income deciles, middle-income from the 6th tot he 8th, and high-income from the 9th tot he 10th.

restrictions.[97] But, to what extent are the consumer debts of poorer consumers born out of necessity? What exactly do they purchase with these credits?

As mentioned before, unlike households from middle and high income groups, the main source of consumer credit for families from the first five income deciles are department stores (42.8%), followed by far by social loans (7.9%) and bank loans (7.9%). The question then, is how consumers use these loans.

Table 11: Distribution of Consumer Debts by Income Group, 2009

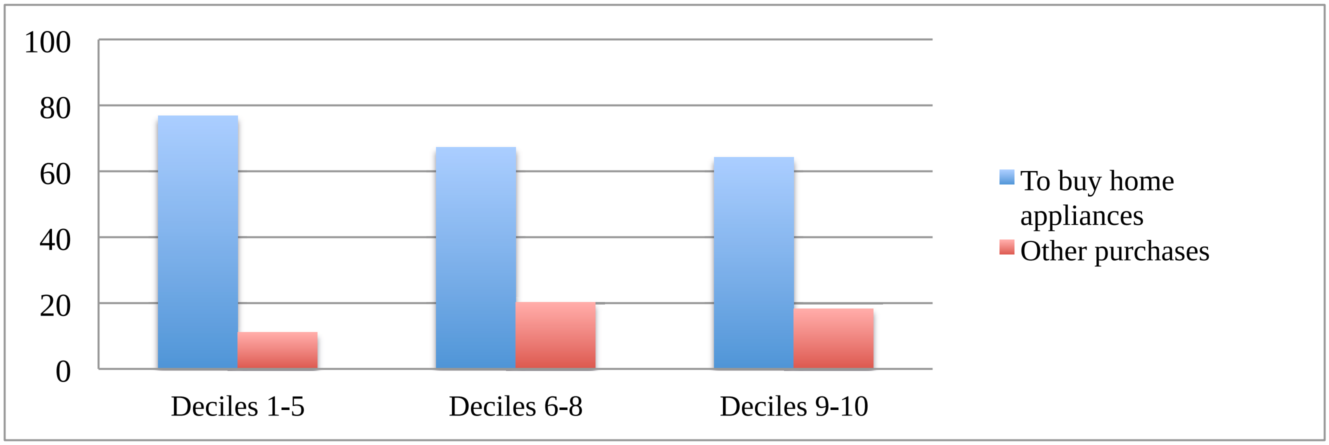
	Low (income 1-5 decile)	Medium (income 6-8 decile)	High (income 9-10 decile)
Bank Loan	7.88	17.01	26.12
Bank Credit Card or Overdraft Line	3.36	6.11	26.07
Department Store Credit Card	42.79	49.78	45.01
Loan with Department Store and other financial institutions	1.72	3.95	3.66
Social Loan	7.87	8.97	5.94
Car Loan	0.93	1.44	2.75

Source: Data from the EFH 2009

As the data consistently shows (see chart below), people across all income groups use the first department store credit debt they report to buy home appliances. Nevertheless, households from the bottom 50% use these cards to buy home appliances in a higher proportion than wealthier families, who use them also most often to buy clothing and other items. This is something one can expect, since department store credit cards are attached to within-store purchases, thus reducing the possible ways of using them.

[97] Furthermore, one should be careful when interpreting these reasons because "disliking" debts does not mean that people do not use consumer debts at all. Indeed a 35% of those that argued did not acquire debts in 2009 because they "do not like them", had at least one credit with department stores, implying that in many situations disliking debts is apparently not a good reason for not acquiring them.

Figure 37: For What Purposes did You Use Your Department Store Credit Card? Different income Deciles 2009



Source: Data from the EFH 2009

But this is still a broad approximation. To get a better picture of the items customers are buying with these credits, we have to look into the available studies that address the financial practices of the low-income groups in Chile. For the time being, there are only a few studies on this subject, but they are quite informative for our purposes.

As Barros´ (2011) qualitative study in a poor municipality of Santiago shows, consumers from the bottom income quintiles most typically use department store credit cards to buy items for their homes that improve their "comfort" and "life-quality". In this category we find goods such as a living room, a new TV or a water heater system, in many cases more expensive than their monthly incomes, and for which people feel they could not put money aside for the sake of more urgent expenditures. Ariztía (2003) arrives at a similar conclusion interviewing poor families in Santiago, for whom the department store credit card is the only way to acquire a "package of durable goods".

In this regard, Ureta´s study on the material transformation and decoration among low-income families in Santiago provides important clues. His qualitative study shows that the process of "home-making" among poor families goes beyond the acquisition of a house, and entails the formation of people´s identity and expression attuned with their integration into the Chilean society (Ureta 2007). Both material transformation and decoration represent important changes for families that for the very first time have access to private property, which they can modify and transform according to their preferences and reflecting their own identities. Functional and aesthetic transformations merge in this process, such as ensuring security and decorating with a fence, or changing their old furniture. In this context, Ureta (2007) shows that poor families are not only oriented by a "choice of the necessary" (as Bourdieu would say), but also by people´s aesthetic judgments in contexts of economic constraints (Ureta 2007).

In view of the notion aforementioned, the broad picture becomes clearer in that the financialization of consumptions stands at the intersection between social policies that provide housing and private property, and the consolidation of new standards of living.[98] On the one hand, new houses, no matter if bought with a mortgage, cash or a social dwelling, they all have to be equipped with furniture, decorated, painted, modified and transformed according to the identities of the owners. On the other hand, in a country where financialization policies expanded homeownership to unprecedented levels, but improvements in the labor market were only restricted to the most qualified workers, department stores became for many the only alternative to buy those goods that people increasingly considered legitimate to acquire. In this process, many Chilean families progressively learned how to incorporate small credits into their budgets, pay on time and ensure their permanent access to goods that otherwise they could not have afforded.

In more general terms, low-income Chilean families learned to combine different *circuits of commerce* (Zelizer 2005b), alternating purchases in free fairs where fruits and vegetables are considerably cheaper than in supermarkets, buying many times second-hand or counterfeit clothing and footwear, while using credit cards to do what people consistently call “big purchases”, referring to durable goods in department stores (Barros 2011). As I will show later on, some learned how to capitalize on the department store offers and lend their credit cards to relatives and friends in order to improve their credit scores; many others had traumatic experiences; and an important share incorporated the payment monthly installments into their normal financial affairs.

By now, before getting into the qualitative details, it suffices to say that the department store credit card in this context of improvement and inequality becomes an extension of labor-income, and a passport not for consumerism but for a different form of citizenship. This new form of citizenship is no longer materialized in entitlements, but expressed in the participation in the benefits of growth, which finds its expression in the market.

The idea pointed out above does not necessarily mean that these consumers acquire debts in order to improve their status in a quest for “spurious” upward mobility. If a “consumerist fever” was the main driving force of these consumers, we could expect a different utilization of their credit cards, more oriented towards the acquisition of clothing and other items such as cars (only 1.3%) and luxury goods (less than 1%) that serve as markers of distinction. What one witness, in contrast, is that the main use families make of department store credit cards is to access to unaffordable durable goods (Ariztía 2003). That is why most families strive to have a good financial record in order to avoid discrimination, and ensure a permanent access to credit. In this scenario, acquiring durable goods and “better” (branded) clothing with these credit cards might be a marker of social status among their peers, but evidence suggests that many families prefer to use consumer loans in order to have access to what seems to be the legitimate “standard package”, provided that theirs and others´ standards of living change. As Stillerman

[98] Many of these families were previously living in precarious settlements known in Chile as “tomas” or “campamentos”

(2012, p. 73) notes when studying families on the edge of the poverty line, “These families access goods and services available to most of their peers rather than seek to emulate higher social strata.” At the most, social comparison works in the contrary direction, when poorer consumers buy items on credit in order to demarcate themselves from the stigma of poverty, as revealed by the qualitative research conducted by van Bavel/Sell-Trujillo (2003).

Chapter 8 Inequality and the Financialization of the Middle Classes

It has been already discussed that poverty in Chile diminished in impressive ways between 1990 and 2011 from 38.6% to 15.1%. As I showed earlier, most of these improvements were possible due to the direct intervention of the Chilean government via subsidies and targeted social policies. These policies helped people move out of poverty and created higher aspirations among families that did not experience better opportunities in labor markets and participated only indirectly in the benefits of growth. In this scenario I ventured that department store credit cards became a legitimate means to acquire those goods that allowed them to materialize life projects associated with their new condition of "homeowner", and thus achieve and perform their new class and personal identities. But what happens with those non-poor families that experienced an increase in their wages? If they are better off, why do they use consumer credit at all? How does inequality affect their financial behavior?

Consumers from the middle of the income distribution (now between the IV and VII income deciles) have indeed experienced different trajectories. They experienced a rise in their wages, and since they are less prompt to fall under the poverty threshold, they have more opportunities for maintaining or improving their status (Contreras et al. 2005). These groups enjoy better work contracts and are essentially meritocratic (they do not receive government subsidies) (Bazoret/Fierro 2011; Espinoza/Bazoret 2009). Additionally, they enjoy better access to credit and mix different types of debts (Marambio 2011).

In order to account for customer financialization in line with the "status anxiety" hypothesis, I explore in this chapter the question whether credit fills in the gap between incomes that have risen in average, and expectations of wealth accumulation and status that grow even faster in a context of structural inequalities. In this regard, Bourdieu´s theory of habitus and class differentiation is useful to "think with" the problem of expectations and incomes, not necessarily as a master framework for interpreting reality, but as a heuristic to approach it in a sociological way.

As it was seen in chapter two, Bourdieu´s theory of class differentiation and consumption dynamics rests on the assumption that individuals acquire -through socialization processes- a relatively coherent set of dispositions to act, think, appreciate and classify the world which he termed *habitus* (Bourdieu 2012). In this sense, individuals that occupy neighboring positions in the social structure, i.e. share a similar structure of capitals, are subject to similar conditioning factors, so they consequently "…have every chance of having similar dispositions and interests, and thus of producing practices and representations of a similar kind." (Bourdieu 1985, p.5). This proximity in the modes of perceiving and acting created by a similar -or *homologous*- position in the social structure is what Bourdieu termed a "probable class" or "class on paper" (Bourdieu 1985). Since these dispositions reflect people´s positions, the *habitus* works as a sort of social "genetics" that makes social order stable by reproducing the symbolic and objective boundaries between groups that appear as “given”. More importantly for us, however, is that the *habitus* creates a match between people´s expectations –horizon of possibilities- and their objective position in social space (which is given by the distribution and structure of economic and cultural capital). This “match” is manifested as a sort of “sense of one´s place” which according to Bourdieu, is “…at the same time a sense of the place of others, and, together with the affinities of habitus experienced in the form of personal attraction or revulsion, is at the root of all processes of cooptation, friendship, love, association, etc., and thereby provides the principle of all durable alliances and connections, including legally sanctioned relationships." (Bourdieu 1985, p. 5). Thus, for example, the fact that people compare themselves and contrast their success or failure with those they consider to be somehow “equal” (from which the notion of “relative deprivation” stems), is a clear demonstration of the non-reflexive “sense of one´s place” in the world.

The notion put forward above helps us to frame the sociological puzzle we are tackling and think of consumer credit as a cultural tool that fills in the gap –a mismatch- between incomes and expectations. If Bourdieu is right, and subjective expectations tend to resemble very closely the objective positions of individuals in a field, one could argue that consumer credit becomes a means for closing the gap between incomes and desires in four different but related scenarios where inequality plays an important role, although the mechanisms differ.

- Firstly, if there are processes of collective upward mobility but inequality is left untouched, people´s personal and intergenerational improvements are shadowed and might, in many cases, make them feel as “falling behind”. In this case, positive consequences of material improvements fade away because new and more demanding standards of living create higher aspirations that cannot be met with existing income. Credit would serve, in this scenario, as a means for catching-up with the new consumption standards that are collectively ratcheted up, explaining why people that experience material improvements in contexts of inequality acquire debts in a systematic fashion. For this to be true, one would expect to find more people living under the “median standards of living”, or what is called “relatively poor”.
- Secondly, one can expect credit to fill in the gap between incomes and expectations also when, due to high levels of inequality, people are systematically exposed to the lifestyles and consumption patterns of richer people that create pressures to consume beyond their capabilities. In this case, the gap between incomes and desires grows bigger because consumer expenditures at the top of the income distribution would create a “trickle-down” effect that changes the standards of living of the rest and puts pressure on different socioeconomic groups in the form of “cascades”. In such a scenario, consumers would have a distorted impression of other´s possessions, against which they will compare themselves and feel anxious. Consumer credit, in this case, would serve as a means

for "catching-up" with abstract or other types of wealthier reference groups. If this is true, one has to look into specific mechanisms through which standards of living of top earners exert anxiety on the rest, while deforming their perception of others´ wealth.

- Thirdly, in a complementary vein, there might be both structural and cultural forces that accounts for the mismatch between incomes and people´s aspirations that we have to explore. In particular, dynamics of *class differentiation* and *individualization* processes will be surveyed as contextual factors that shape the embracement of consumer debts of an increasing share of Chilean families.
- Finally, the fourth possibility -which I explore in the next chapter- expands this line of argument. It might be the case that once Chilean families have access to formal financial institutions, consumer credit itself creates the gap between current and potential standards of living. In other words, it is necessary to pose the question whether these desires for expanding one´s purchasing power precedes the utilization of credit, or if its availability produces the gap between incomes and desires. If the latter is true, one can expect to see an intertwinement between the aspirations of Chilean families and the modes of utilization of consumer debts.

In this chapter, I begin tackling the financialization of the middle-class in Chile by taking into consideration the three first hypotheses (the last one will be clarified in chapter 9). This will provide the context in which one should understand the specific financial practices of middle-income families that I will sketch in a more detailed fashion in the next chapter. The chapter is organized as follows. The first section explores whether Chilean middle-class are relatively poor and to what extent this might account for a mismatch between their current incomes and desired lifestyles. The second sketches different mechanisms through which the "trickle down consumption" effect exerts pressure to consume beyond people´s means in contexts of inequality. The third section moves on to consider the question of whether the rise of the new middle classes triggered processes of class differentiation that created spirals of consumption that demand important financial efforts. Finally, the last section complements these processes by sketching some cultural trends of the Chilean society that have shaped consumption dynamics.

8.1 Are Chileans Relatively Poor?

The most common measurements of material improvement used in Chile are not enough to characterize what happens with consumers in the middle of the income distribution. In particular, because the standard measurement of poverty in Chile has been updated according to the price index, but it does not take into consideration the profound changes in the standards of living and consumption patterns of the Chilean population. Not only do Chilean households across the whole income distribution spend more in food, home appliances, education and beauty products than before in absolute terms, but also the shares of the family budget spent on “basic” goods diminished in relation to those “positional goods”. This is even more problematic in the case of the middle-class, which even though in absolute terms might enjoy high standards of living, might as well have a generalized feeling of “falling behind” for the sake of increasing inequality, as it has been systematically documented in the US (Frank 2005a; Frank 2007; Sullivan 2000; Hodson/Dwyer/Neilson 2014; Warren 2003). As I argued before, this happens because standards of living against which people compare themselves are never absolute, something that holds true for upward as well as downward mobility.[99]

If we take these assertions into consideration, one can conclude that the problem with absolute measurements of poverty and income is that they do not grasp the importance of social comparison and social differences in a given society. But when it is the case of a middle class family “falling behind”, how might this affect indebtedness? Do we find evidence to show that Chilean families feel poor even when they have experienced important improvements? In order to explore these questions, I will now draw on the notion of “relative poverty” to develop the idea that inequality radicalizes the effects of social comparison, forcing people to consume beyond their means.

Relative Poverty in Chile

In general, unlike the developed world where relative measurements of poverty have been adopted and systematically used since the post-war era (Sen 1983), Latin American countries have historically dealt with the problem of ensuring a minimum level of subsistence. This turned “absolute poverty” into the main measurement guiding social and distributive policies in the region. Thus, when I say that Chile´s poverty experienced the sharpest reduction in the region, it basically means that the share of population that can meet a basic alimentary level increased. In more concrete terms, “total” or “absolute” poverty is measured with the survey of socioeconomic characterization as the reversed proportion of “food expenditures” of the first household that satisfies alimentary necessities. If the share of the budget spent on food of this household is 50%, the reverse is 2, which means that the value of the poverty threshold is settled as two times the set of basic goods that is necessary to satisfy the alimentary threshold. The fundamental problem with this measurement in Chile is that the absolute standard takes into consideration the share of expenditures for basic goods of 1987, which is obsolete in the context of the huge changes in consumption patterns and higher standards of living. It has been only updated according to the price index, but it still resembles the consumption patterns of the Chilean society more than two decades ago.

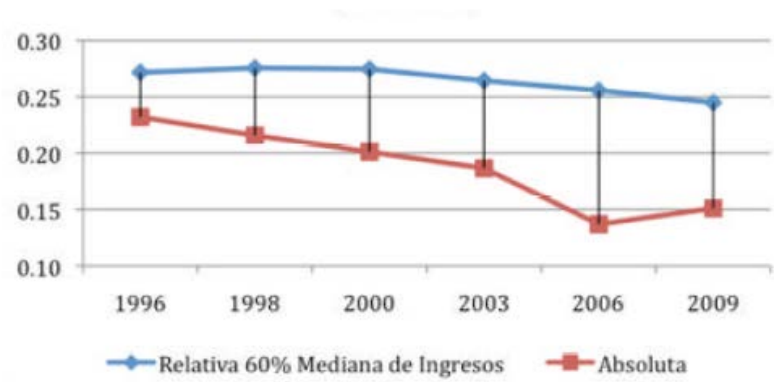
The notion of “relative poverty” avoids such problems by taking as a reference point the median

[99] Unemployment, for instance, which is negatively correlated with subjective well being, diminishes people´s happiness less if they are not alone. As Frey/Stutzer (2002, p. 6) put it, “When unemployment is seen to hit many people one knows or hears of, both the psychological and the social effects are mitigated. Self-esteem is better preserved, because it becomes obvious that being out of work is less one´s own fault and more due to general developments in the economy.”

income. This captures the social dynamic of consumption every time it refers to the distance between actual consumption and the socially acceptable standards defined in a community. Typically, international organizations such as the OECD and ECLAC proceed by establishing the "relative poverty threshold" as 50 or 60% of the median income.[100] Thus, in an unequal society one can expect an important share of the population to live in "relative poverty" or living "behind" the standards of the "median citizen", regardless of their absolute wealth. What happens in Chile?

Currently, there are no official measurements of "relative poverty" in Chile.[101] Filling this gap, Pino (2011) made an important contribution by characterizing trends in "relative poverty" using the socio-economic characterization survey, CASEN. According to Pino´s work, measured as a 60% of the median income, relative poverty in Chile has been higher than total poverty during most part of the last two decades, the later only surpassing "relative poverty" only in 1996, increasing steadily until 2000s and slightly diminishing since 2003 (the gap diminished in 2009 due to an increase in total poverty).[102]

Figure 38: Evolution of Relative and Absolute Poverty 1996-2006



Source: chart taken from Pino (2011)

These trends in relative poverty imply that there is an important share of the population in Chile that is "relatively poor", or whose income falls behind 60% of the median income, households that can be considered as living behind the standard of living that the median income reflects. In this sense, considering that relative poverty is higher than total poverty, it is possible to argue that "status anxiety" among families at the bottom and middle of the income distribution augmented since the mid-nineties,

[100] The complexity, however, lies in the fact that standard consumption level should be determined by the researcher.

[101] Absolute poverty in Chile is a matter of concern because many low-income families remain over the poverty line with the help of government subsidies. That is why social policies still combine materialist concerns hand in hand with the rising demands of the non-poor and more educated population.

[102] Pino shows that at different levels from 40 to 70% of the median income, there are similar variations, which means that there are no important income transfer in the 40-70 groups.

which coincides with the expansion of credit to sub-prime borrowers. But this is not everything.

Pino concludes by saying that there is an important group of “relatively poor” families currently considered as “non-poor”, which share very similar characteristics with the poor population. Nevertheless, the most striking remark is that an important share of “relative poor” households have different characteristic from “poor” individuals, such as the predominance of male household heads, a smaller number of family members under an alimentary budget, fewer children under 14 years old, and more elderly people. Moreover, the “income” that excludes government subsidies (*ingreso autónomo*) of these “relatively poor” families has augmented at a higher pace than those of the absolutely poor, accumulating a difference of 8.43% in 1996 to 28.8% in 2009. This means that there are good reasons for thinking that families that experienced upward mobility, and that we consider as being in a “good economic situation”, could well share the feeling of poorest households that are not participating in the benefits of growth, at least not at the pace that other families seem to enjoy the Chilean modernization.

According to our framework, the situation described above becomes a source of “anxiety” that might explain the gap between incomes and desires that credit seems to fulfill across all income groups. This provides a basis for a sociological explanation of indebtedness. After all, even research in the field of economic psychology has consistently found that there is a strong correlation between the distance perceived between people´s income and reference groups, and favorable attitudes towards debts (Cosma/Pattarin 2012). For these reasons, if inequality in the form of relative poverty amplifies the gap between incomes and desires, it is by creating and reproducing among the “relatively poor” the feeling that they are not “catching up” with the rest. Is this true?

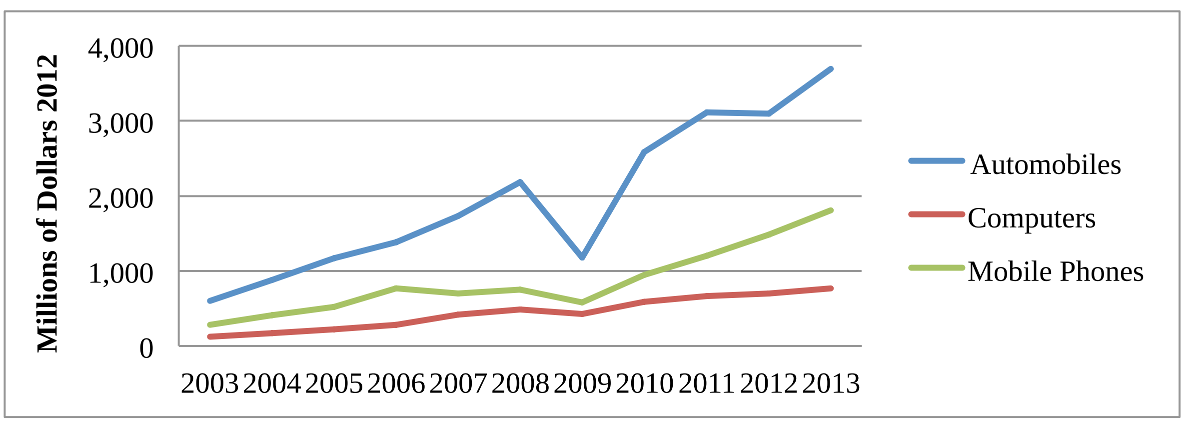
Evidence points in the direction indicated in the paragraph above. Already by the early 2000s it was pretty clear that an important share of Chilean families –more than 50%- felt they were not integrated into the party of consumption. According to the analysis of United Nations Development Program only a few educated consumers in 2002 saw themselves as “winners” and consumed for enjoyment (26% of respondents), while an important majority declared that could barely meet basic needs (42%), or consume in order to improve their life-quality (13%); in the latter cases, mostly among low and middle-income consumers, consumers felt as “losers” of the Chilean modernization process (PNUD 2002).

But higher and more demanding standards of livings along with economic growth seem to affect the perceptions of those consumers that are better off as well. Although "material deprivation" is not a pressing issue for middle and top earners in comparison to those at the bottom of the income distribution, those households that experienced sustained prosperity at a faster pace than the rest of the families are still prone to feeling unsatisfied with their incomes. As reported by a survey conducted by Universidad Finis Terra in 2008 about “Chileans and money” with consumers from middle-upper and high socioeconomic groups, 59% of the interviewees declared to be unhappy about their current income, which seems to be even more noticeable among those of the middle-upper group (65% of the middle-up group against 47%

of upper classes). Among the most unsatisfied top earners -who belong to the 7th and 8th income deciles, around 60 percent would like to see a 25% increase in their incomes. Why are these consumers, the "winners", unsatisfied with their incomes?

From a sociological point of view, this is somehow expectable since every time the horizon of possibilities is displaced and widens with better incomes, new consumption standards become new and more demanding reference points; "what once was the roof now becomes the floor", says the saying. In other words, those standards of living people reached throughout their life-course stand now as the norm against which they compare and evaluate themselves (Schor 1999b), which means that even if people have access to new goods and better material conditions, for most of them old necessities are simply replaced by new and more demanding consumption standards. As we saw in chapter 4, this trend started in Chile in the nineties, where Chilean families experienced increasing access to a set of goods that were previously restricted to a minority. This process that started with the penetration of a "standard package" of durable goods such as TV, refrigerator, microwave and phone connection, moved later on to cars, computers and mobile phones (as well as education and other intangible assets), as the chart below shows. With this, the standard of living represented by the new "standard-package" of consumer goods became more demanding for all equally, generating a sense of "relative deprivation" (Majeed 1979).

Figure 39: Evolution of Imported Goods, 2003-2013

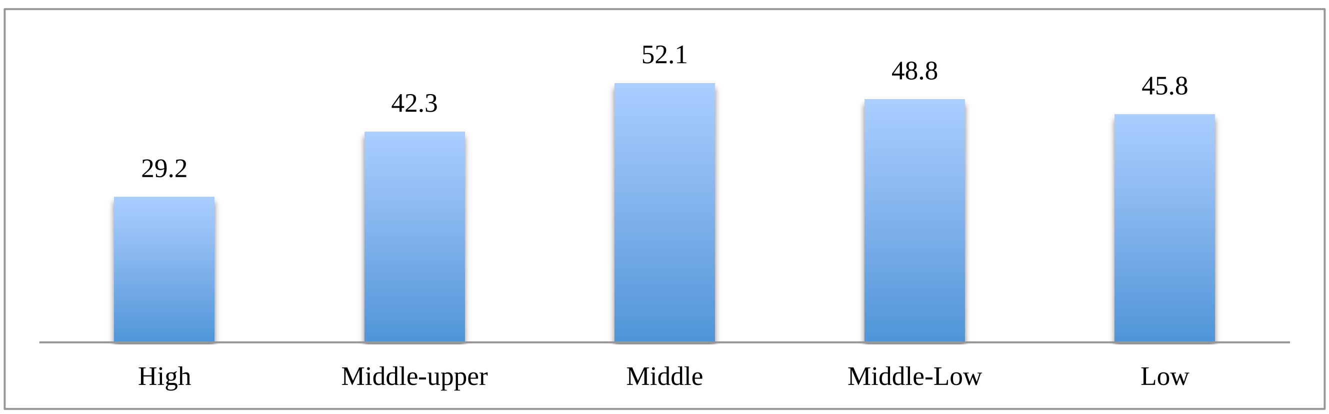


Source: Data from the Central Bank of Chile

Bourdieu (1984) had already stressed in *Distinction* that individual trajectories might not be noticed when collective social mobility has occurred. Thus, while vertical mobility produces important changes in the total mobility expressed in changing lifestyles, it might represent static "relative mobility" regarding their position in the overall social hierarchy, provided that almost everybody else is better off. In simpler terms, since these improvements left inequality untouched, the effects of processes of collective social mobility are lessened and many feel still unsatisfied: unlike the previous decades, children from poor families attend school, wear shoes and live in their own home, but within the new consumption standards of the median Chilean they are still very poor. By the same token, a middle class family now earns higher wages, can travel across the country during vacation with a new 4x4 vehicle, has internet connection and computers at home; but they are still a middle class family far from the consumption standards of the 20% most affluent consumers that now have a second home, travel abroad and have access to luxury cars.

The relative character of consumption standards is probably nowhere else better depicted than in the following chart, which shows that at very different levels of income and education, people feel that their income can barely help them meet what they consider "basic needs and nothing else". This goes in line with the interpretation made in happiness studies, according to which once individuals cross a certain threshold of consumption, they become essentially "aspirational", in the sense that their reference groups change (Easterlin 1995) and have expectations of constant improvement (Merton/Kitt 1997).

Figure 40: Consumers Who Think that Their "Incomes allow them to meet only basic needs and nothing else", Year 2008 (Different Socioeconomic Groups)



Source: Data from the Encuesta Nacional UDP 2008.

The perception marked by the feeling of "falling behind" of Chilean consumers seems to be also rooted in major cultural changes brought about by the institutionalization of a market-oriented society. An important cultural change underlying people´s lack of satisfaction with their incomes is that the moral meanings associated with money and wealth seem to have changed profoundly in contemporary Chile (Moulian 2002). If egalitarianism in the decades prior to the radical neoliberal reforms was spread enough to result in a generalized condemnation of wealth -especially preached in the socialist narrative of Allende´s "Unidad Popular" and the social doctrine of the church, nowadays things seem to have changed. Today there exists in Chile an important association between being rich, virtuous and successful. In sharp contrast with the previous decades, for most middle and middle-upper classes money might not only bring happiness to all alike (as the survey mentioned above shows), but it is also a sign of success that can be deployed and showed to others with pride and without fearing to be recriminated. As a consequence, if being able to show affluence becomes a marker of social distinction and a legitimate means for communicating one´s success, having access to goods becomes a source of anxiety for consumers across all socioeconomic groups.

As illustrated in the data, the survey on “Chileans and Money” above mentioned, for instance, found that most consumers of upper and middle-upper socioeconomic strata (ABC1 and C2 according to marketing classifications) consider that money is important or very important to be happy (90% of respondents), and an important number feels that money is much more important than in the past (79%). In parallel, most of respondents also said that in Chile there are excessive pressures to consume (77%). Among these, around 50% said they feel "vulnerable" in front of this situation, being this feeling stronger among women (55 against 42%). The upper-middle class, however, is the group where people feel more strongly inclined to thinking that the “search for status” is underlying the consumption decisions of Chileans (43% of the middle-upper group and 29% among upper class agree that this motive is very important). This perception stems most likely from the increasing access to consumption of the “new-middle class”, which tends to blur existing “status hierarchies”. This general concern with rank and achievement in the new standards of the Chilean society (status anxiety), explains why Chileans across all socioeconomic groups feel relatively happy about the job they have, their free time, sexual life, friendship, family relations, and their neighborhood, but highly unsatisfied with their economic situation (as reported by the national survey carried in 2008 the Universidad Diego Portales).[103]

Summing up, there are clear signs of “status anxiety” among Chilean families that, even though they have experienced material improvements still feel unsatisfied with their incomes. This is linked directly to our earlier statement that the social construction of the standards of living should be understood in relational rather than substantive ways (Frank 2005a; Schor 1999b; Easterlin 1995; Bourdieu 1984). According to the picture presented above, one has good reasons for believing that consumer credit serves for financing more demanding lifestyles among middle class consumers. But what are these expectations about and where do they come from? Does this mean that Chilean families became essentially consumerists? In the following section I explore different social processes that help explain how inequality has shaped the “anxious” behavior of Chilean consumers in contexts of general improvements, and how this might have affected their indebtedness. Considering these mechanisms, in the next chapter I will tackle in a qualitative fashion the question of whether people systematically use consumer credit to fill in this never-ending gap, and if so, how people actually use them.

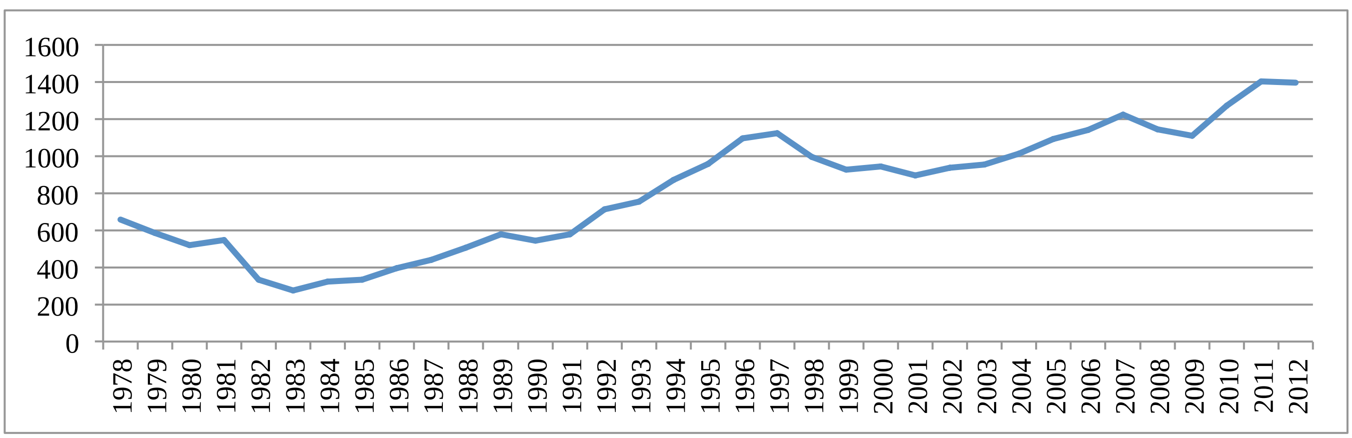
8.2 The “Trickle-Down Consumption Effect”

[103] The report is available at:
http://encuesta.udp.cl/descargas/publicaciones/2009/Satisfaccion%20de%20los%20chilenos%202005-2009.pdf

The second scenario, where credit might close a gap between incomes and aspirations, is one where the expenditure of the wealthiest affects the expectations of less affluent consumers. But how does the "trickle-down consumption effect" exactly work? In other words, how does the lavish expenditure of wealthy people affect the expenditures of the rest?

In Chile, one can arguably say that one of the main mechanisms through which the "trickle down" consumption effect exerts its pressure is through the most pervasive form of creating representations of wealth and wellbeing at the middle and bottom of the income distribution, the TV. As has been seen, almost every Chilean family owns a TV, which places them within the scope of TV shows that depict the lifestyles and daily life of the wealthiest, as well as companies and marketing agencies targeting these populations. Thus, for example, along with the rise of more "affluent consumers" and niche differentiation, marketing has seen an important explosion in the last decades, providing an account of the increasing exposure of Chilean consumers to the temptation of saturated markets. As the following chart shows, companies in Chile have more than doubled their investments in advertisements, which is very indicative of the extent to which Chilean consumers are exposed not only to new goods and trends, but also getting to know how richer people live, consume and deploy their lifestyles.

Figure 41: Expenditures on Advertisement Investments (Millions of US Dollars 2012)



Source: Data from the Chilean Asociation of Advertising Agencies, ACHAM

In a country where social classes barely share common spaces due to deep segregation in the cities and within the educational system, the TV and social media become the most important channels through which low and middle-income families are exposed to the expenditures of top income earners. This might be considered as both a cause and effect of the increasing access to consumer goods. According to a survey conducted in 2009 by ICSO, 98.1% of Chileans have a color TV and 68% of them watch TV on a daily basis. The exposure to TV is considerably higher among housewives than for those integrated into the labor markets. While 71.8 and 74.7% of housewives with and without children watch TV every day, the number diminishes to 63.6 and 56% among women that work on the labor market with and without children. In average, however, middle-low income groups spend more hours watching TV a day (3.2) than individuals from middle and middle-upper income groups (2.6 and 2.3 hours a day, respectively), which means that these consumers –the drivers of the expansion of credit in the 2000s- are more exposed to the influence of consumption pressures (data from 2011, see CNTV (2011))

But not only have marketers more access to target Chilean families and expose them to constant advertisements (which concentrates around 50% of total advertisement, see CNTV (2007)), but also the content of TV-shows matters. A good example of how content might have shaped the perception of Chilean consumers is the "showbiz" boom we have witnessed in the last ten years.

These TV shows in Chile boomed in the early 2000´s. According to experts, the milestone of Chileans´ concern about the daily life of national celebrities was the full coverage of the fight in a Disco held by two models wooers of Chile´s national team striker, Iván Zamorano. Only a few weeks after the fight, important national newspapers ("Las Últimas Noticias", "La Cuarta" and "La Tercera") changed their editorial format to include a permanent section of Showbiz. Since then, the industry grew in impressive ways and in 2006 the specialized Showbiz TV show "Primer Plano" was reaching an impressive 21 point rating. As the 2011´s report of the National Council of Television showed, these TV-shows represent around a stable 5% of the total offer of the open TV in Chile (CNTV 2011) and have also differentiated and targeted audiences specializing in middle-low, middle and middle-upper socioeconomic backgrounds, being predominant among the former groups (CNTV 2013b).

There might be several reasons why these shows are successful. Among them, people look for light entertainment that can be enjoyed without fully engaging with them (they do not require any concentration) and many individuals watch them by chance. But as a producer in the industry suggested in an interview with "La Tercera",[104] these shows are successful because they depict many times "normal" people that reached fame and wealth, and with whom they can identify themselves (indeed, the most recalled concepts with which Chileans seem to associate "showbiz" are "fame" and "money" (CNTV 2013a)),. According to the report of the National Council of Television (CNTV 2013b), qualitative inquiries suggest that viewers are mainly interested in romance, every-day life of famous people, as well as curiosities such as "how much do they spend on clothing?". That is why, regardless of the reasons explaining the increasing attention towards the life of national celebrities, what remains is that many Chileans become interested in the lives of "successful" and wealthier people with whom they can identify themselves. With this, they are consistently exposed to the lifestyles and consumption standards of "normal" but richer people, which goes in line with Merton´s suggestion that in societies that experience upward mobility, people tend to identify themselves with successful groups.

Although there is not enough research to be conclusive about the role of the TV in shaping

[104] Available at: http://www.latercera.com/noticia/tendencias/2014/08/659-593607-9-ya-no-lo-siento-tu-hora-paso.shtml

people´s expectations in Chile, and we know that consumers are not passive recipients of these messages (Hall 2006), one could argue that the exposure to the life of others on a daily basis naturalizes and distorts the perception of one´s success and lifestyle, while triggers the desire of being attuned with the main trends of Chilean society. This can be easily extrapolated to other genres.

The boom of showbiz, for instance, went also hand-by-hand with the consolidation of “reggaetón” in the whole region for at least the last fifteen years. “Reggaeton” is a music genre born in Puerto Rico´s ghettos that reproduces the lifestyles of gangsters and reapers. “Reggaeton” shows in its lyrics and clips the deployment of jewelry and expensive clothing (not to mention the objectification of women, which has received most attention (Gallucci 2008); for an analysis on the relationship between masculinity and identity see Carballo (2007)). [105] As artists systematically stress in their lyrics and interviews (see for example Dinzey-Flores (2008)), the exaltation of wealth in its different forms serves for establishing distance from former material constrains and becomes an explicit marker of success in the struggle for social mobility. One can argue that this and other cultural influences in Chile –and arguably everywhere- had an important factor explaining the rising concern about clothing and appearance from an increasingly indebted youth, especially among the poorest. This is reflected on the allocation of their budgets as well as their debts.

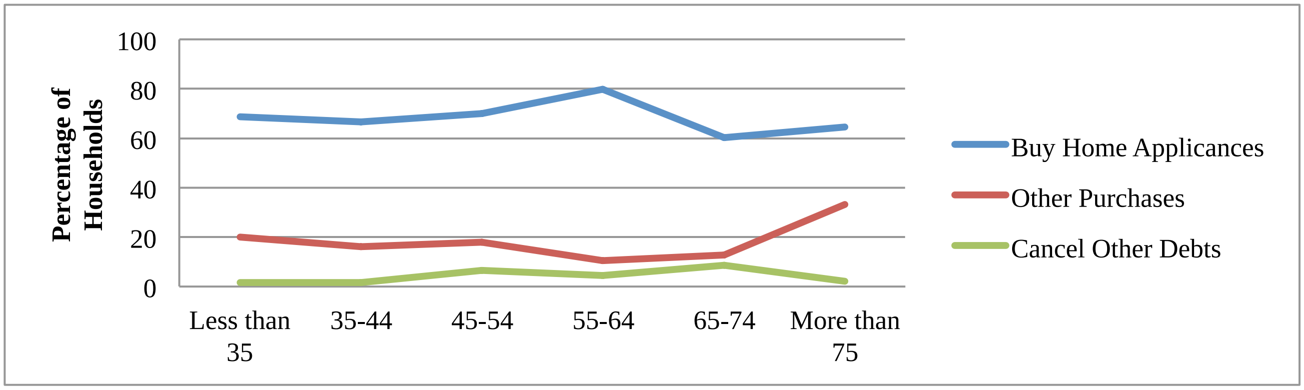
Indeed, according to the Sixth Youth National Survey conducted in 2010 “clothing and footwear” are the second most important declared aspiration of young people in Chile after homeownership, reaching a 15.1% of preferences, and surpassing issues such as saving (11.2) and affording educational costs (10.4). In general, this preference accounts for the fact that younger consumers use department store credit cards to afford clothing, footwear and accessories in a bigger proportion than other age groups, except those over 75.[106]

As the Household Financial Survey 2009 reports, among those that declare having at least one debt with department store credit cards, around 20% of consumers younger than 35 use these credits to make “other purchases” (clothing, footwear and accessories), decreasing in the middle of the life cycle where households conversely use these credits more systematically to buy home appliances and pay other debts.

[105] Which range from romantics and gangbanging to competition for women- luxury cars, mansions.

[106] As expected, the number of young people with all types of debts as well as their amounts increases with age, being mortgages the biggest financial burden, followed by educational loans, bank consumer credits and department store credit cards. This is nothing new, since we already know that in average department stores´ loans are the smallest in the market, although they represent the most extended form of debt across all income groups.

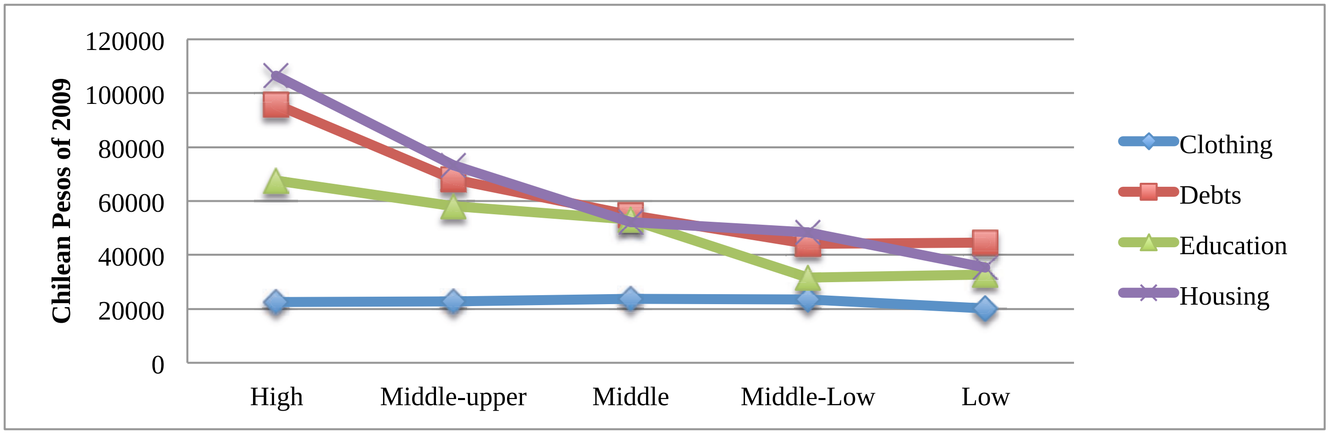
Figure 42: Utilization of Department Store Credit Cards, Different Age Groups 2009



Source: Data from the EFH 2009.

But the pressure to spend on the items listed in the precedent paragraph seems to be especially important among poorer young consumers. As the Sixth Youth National Survey shows, for instance, the average amount of expenditures on almost all items such as housing, debts and education differs considerably according to socioeconomic strata. But the difference in the average amount of money spent on clothing and footwear between the highest and the lowest strata is very small, and even higher among the middle and middle-low strata (chart below). Nevertheless, as a share of the incomes of these consumers, expenditures on clothing are significantly more important for young consumers in the middle-low and low socioeconomic groups. Thus for example, young consumers from the two poorest socioeconomic groups spend on the average the same amount of money than their homologous in the upper classes each month (around USD 45), but on the average the former groups allocate 20 percent of their incomes on clothing and footwear, while their counterparts in the middle, middle-upper and upper socioeconomic groups allocate only between 10 and 15% percent of their incomes (INJUV 2010). In other words, clothing and footwear are important aspirations among young consumers, who allocate similar amounts of money to these items across all socioeconomic groups; but in relative terms, those from lower socioeconomic strata make a stronger effort than everybody else to keep a similar level of expenditure. This goes in line with the suggestion that their exposure to reference groups that deploy wealth as a marker of identity and success in contexts of material constraints, might create pressures to spend and acquire debts to perform their class identities.

Figure 43: Average Amount of Monthly Expenditure Among Youth, Different Items 2010

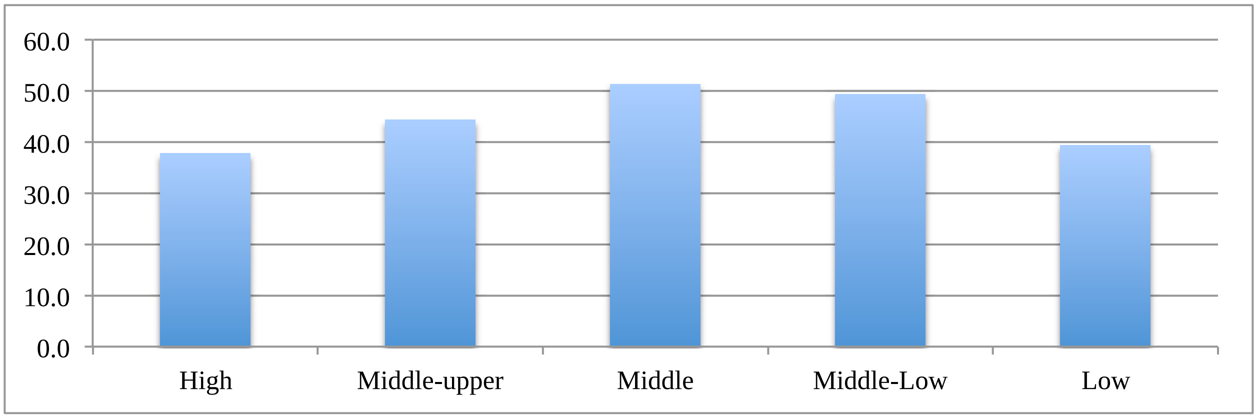


Source: Calculated from data from the "Sexta Encuesta Nacional de Juventud"

In the end, no matter whether it is through advertising, the content of TV shows or other cultural manifestations, the mechanism though which the "trickle down consumption effect" exerts pressure on consumers seems to be the same. With the constant exposure to the lifestyles of wealthier individuals, one witnesses the rise of abstract reference groups that, in many cases, go beyond face-to-face relations (traditionally term with the expresion "keeping up with the Jonesses"). These abstract groups of reference depict, in most cases, stories of success with which people identify themselves. But this not only creates new desires and aspirations, but also distorts the perception of reality, generating a generalized feeling of "falling behind". This seems to be the case in Chile, where a national survey conducted by the Universidad Diego Portales in 2008 shows, for example, that an important share of Chileans actually tends to have a very distorted view of the wealth and money that other families have. As the chart below shows, the feeling that "more than half of Chilean families earn more than me" reaches 50% of middle socio-economic groups –among them administrative staff, mid-level managers, skilled workers and independent professionals that represent 25% of Chilean households.[107]

[107] According to Rasse/Salcedo/Pardo (2009), this is the group that represents the "emergent middle-class" that resulted from the economic growth experienced in the last two decades.

Figure 44: People That Think That "more than half of Chilean families earn more than me", 2008



Source: Data from the Encuesta Nacional UDP 2008.

This perception might be also rooted in the "luxury fever" deployed by top earners in Chile during the last decades. The Human Development Report in 2002 already pointed out that the imports of luxury goods such as jewelry and perfumery grew 302% and 903% between 1990 and 2000, respectively (PNUD 2002). Furthermore, as mentioned in chapter 5, households from the lowest and middle-income quintiles increased the share of expenditures on care and beauty products rose consistently since 1987 to date.

In general, the industry of luxury arrived in Chile in the late nineties. The arrival of Louis Vuitton in 1997 was indicative of the trend, followed by the arrival of successive brands and the creation of the Luxury Brand Association (Asociación de Marcas de Lujo) in 2005,[108] which nowadays gathers around 30 associated firms in order to coordinate, promote and protect the industry of luxury in the country. Altogether, many of these brands complement each other and shape a whole "luxurious package" that includes clothing, watches, cars, hotels and restaurants. And they have been very successful. The industry in Chile grew exponentially in the last ten years, registering according to an article published in the newspaper "La Tercera", profits around USD 472 million in 2012 (10% more than in 2011). Recently, this trend received a new impulse on the part of the pioneers of shopping malls in Chile, "Parque Arauco", which inaugurated in 2013 a "Luxurious district" in the wake of the increasing demand of Chilean consumers for luxury goods. With this, luxury brands landed in the heart of Chile´s commercial system, the shopping mall.

Currently, the industry is reaching its highest peak and experts argue that in the last ten years, Chile became the "capital" of luxury cars in Latin America, registering the record of having the only "Aston Martin" sold in the region (whose cost is approximately USD 2 million).[109] In this sense, luxurious

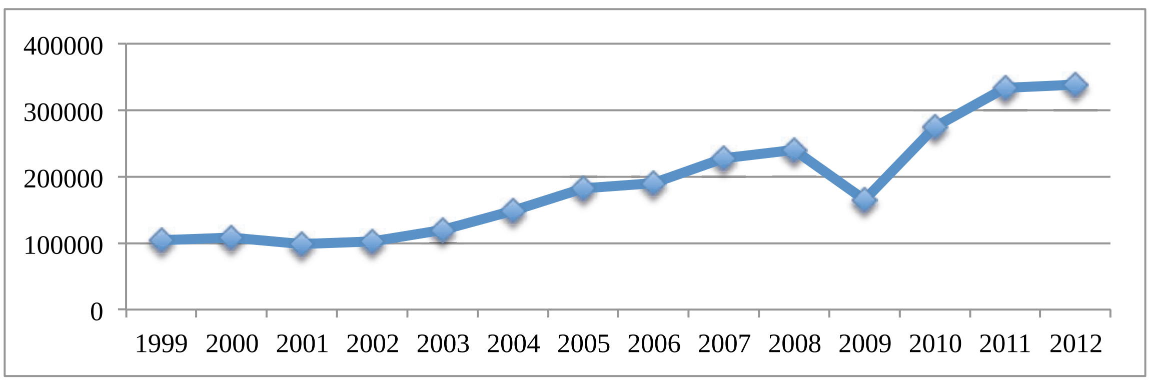
[108] http://amlchile.org/aml/

[109] Chile became an attractive country for the industry because of its political stability, economic growth, as well as security as compared to the former poles of the luxury industry in the region, Argentina and Brasil.

cars, the segment that has experienced the biggest growth in the industry according to the president of Association of Luxury Brands (AML) (55% between 2010 and 2012 followed by premium liquor and jewelry), are very indicative of how expectations might be created by expenditures of wealthiest consumers in the Chilean society. Indeed, cars became a major concern of Chilean consumers in the last decade and for many, they belong now to the "standard package" of durable goods, as the explosive expansion of car owners shows in the chart below. Since cars are, by definition, deployed in the streets and represent "positional goods" -which means that the evaluation that consumers make of their cars largely depends on the cars they see running in the streets- we can expect that the standards of many consumers have been ratcheted up by the progressive penetration of luxury brands, such as Mercedes Benz, Audi, BMW, Lexus, Land Rover, Volvo and Alfa Romeo, and later on the incorporation of "super luxurious" cars such as Porsche, Ferrari, Maserati, Jaguar and Aston Martin, whose prices range from around USD 60,000 to 300,000.

Figure 45: Evolution of Number of Sold Cars, 1999-2012

Source: Data from the National Association of Automobiles (Asociación Nacional Automotriz de



Chile).

A similar logic applies to a set of other positional goods. Experts argue, for instance, that the industry is moving towards the service sector, such as premium coffee houses, hotels and restaurants.[110] This might put pressure on Chileans´ expectations and budgets, if we consider that in items such as eating out Chile is one of the most expensive countries in Latin America, but that does not prevent Chilean consumers from being among the three countries that spend more money on restaurants in the whole region (INE 2006).

Finally, there might be more subtle mechanisms through which exposure to others wealth via face-to-face relations or abstract reference groups takes place. For example, a structural factor that accounts for

[110] Available at: http://www.latercera.com/noticia/negocios/2012/11/655-493599-9-ventas-de-marcas-de-lujo-en-chile-subirian-10-a-us472-millones-este-ano.shtml

the establishment of new standards of living and consumption patterns through changes in the reference groups, especially among moderately educated families, is the increasing participation of women in the labor force. Between 1920 and 1982 women´s participation in the labor force in Chile remained stable between 20 and 25%. The inflection takes place in 1982, where we have seen an increasing participation in labor markets that accumulated a 20% increase in 2009 (PNUD 2010). According to CASEN survey, the participation of women between 15 and 60 years old increased from 32% to 49% between 1987 and 2006 (PNUD 2010). In general, higher participation in labor markets is related to higher levels of education, concentrated among those with high and medium education (78 and 56% accumulated growth rate). Nevertheless, in the period 1996-2008 the main increase was concentrated among those women that live with a partner and have medium education, the segment that had bigger space for growth. This structural change has several implications. Among them, it translates into an important change of the reference groups for many middle class families. The housewife that on the average watches more TV than other groups is, in many cases, replaced by the woman that gets to know the lifestyles of colleagues and other professionals above and below her in hierarchical organizations (Schor 1999b). On the one hand, the standards of living, consumption patterns and expectations of new wage earners (or/and now two-income families) are ratcheted simply because they have more resources. On the other hand, this broadens the scope of existing reference groups and former housewives have access to face-to-face relations with richer people, triggering new patterns of social comparison. Furthermore, a new job – especially in the service sector- requires new investments in personal appearance oneself in front of others and demands a constant monitoring of one´s appearance.

8.3 Class differentiation, Social Trajectories and Credit

Of course, the "trickle down consumption effect" cannot fully account for all consumption dynamics. Indeed, many goods that do not have visibility and cannot be deployed in front of others but represent anyhow an important part of people´s lifestyles. Furthermore, it is hard to establish the causal relation of the consumption patterns of one income group over another. As studies on consumption show, in some cases emulation also occurs in the opposite direction, from the bottom to the top in a sort of "trickle up" effect (Slater 2005b; Gabriel/Lang 2006; Trigg 2001). This happens not only by emulation, as with the famous example of "blue jeans" where working class clothing was embraced as an upper class fashion, but with broader dynamics of *class differentiation*. If the middle-class can increasingly afford goods formerly restricted to the elites or upper classes, these have responded by deploying new forms of consumption that reproduce the symbolic and material boundaries of class differentiation (Veblen 1994; Bourdieu 1984).[111] In this sense, the expansion of markets for luxury, for example, could have been

[111] According to Trigg (2001), the extent to which people consciously engage in "conspicuous consumption" in Veblen´s

fostered by the expansion of consumption among the Chilean middle classes, which seems to have an increasing preference for “branded” goods, which was in turn facilitated by the availability of department store credits. Following this logic, I will show in the next chapter that credit affords not only increasing access to goods but also works as a “quality enhancer”, which places branded goods within the scope of the rising middle-class. In this vein, one now has to consider the idea that the rise of new middle classes in Chile was both the cause and consequence of the expansion of consumption and consumer debts.

Historically speaking, the Chilean middle class emerged in its most modern version in the first half of the XX century in urban centers, mainly composed of employees in the public sector. This sector consolidated between 1940 and 1960, and represented around 30 percent of the population. Even though they had a precarious situation, they enjoyed political representation and obtained important benefits on the part of the developmental state (Bazoret/Fierro 2011; Espinoza/Bazoret 2009). Neoliberal reforms affected these segments in important ways, dismantling their ties with the government and pushing them to migrate to the new private bureaucracies, especially in the service sector (Bazoret/Fierro 2011). As a result of neoliberal reforms, the Chilean middle-class became a very heterogeneous group, to the extent that authors argue that nowadays it is hard to talk of a “Chilean middle class” (Mendez 2008).[112]

Several changes characterize the rise of the “new middle-class” and the reconversion of the “traditional”. As previously mentioned, the reconfiguration of educational opportunities and the occupational structure were followed by a rise in wages and patterns of both intergenerational and individual social mobility (Arzola/Castro 2009; Nuñez/Miranda 2009). In terms of the occupational structure, Torche/Wormald (2004) show that middle class occupations – public and private wage earners, as well as independent workers- grew systematically during the last 25 years, especially concentrating in the private and service sector.

In terms of their access to goods and services, the “new middle-class have been characterized as increasingly integrated into the “consumption party”, especially due to the availability of credit and the consolidation of shopping malls (Moulian 2002; Tironi 1999). But this integration does not only occur with regard to the access to new durable goods –as I showed in chapter 4- but also to the acquisition and appropriation of “cultural goods”. I mentioned, for example, that already in 1997 the share of the income that Chilean families allocated to leisure activities doubled the figures of 1987, from 2.6 to 5.5 (Torche 2012). According to Brunner (2006), the rise of these new groups, more educated and with higher purchasing power, modified the social boundaries demarcated by old hierarchies by transforming the access to cultural goods as well as their modes of appropriation.

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account has been overstated by his critiques. Veblen indeed recognizes that consumers also seek to comply with certain “standards of decency” and “accumulated culture” play a major role in positional struggles.

[112] Depending on whether they are measured in terms of income or occupation, they represent around 40 and 45% of the population, respectively (Mendez 2009).

In the first place, the expansion of both secondary and tertiary education meant a redistribution of cultural capitals among those traditionally excluded from the educational system. A similar process occurred with the consumption of basic cultural goods such as books, magazines, movies, theater, and mass culture events, although there is still an important share of the population that remains “inactive” or “passive” in terms of cultural consumption (Gallo/Teitelboim/Méndez 2009). This represents a break with Chile´s republican history, marked by a very restricted distribution of symbolic capital, classism and a predominant hierarchical organization. In this sense, for example, as Gallo/Teitelboim/Méndez (2009) argue, the consumption of radio and television grew so much across all social strata, that they no longer represented criteria of distinction; by the same token, the consumption of public cultural goods do not longer discriminate among social groups, and Chileans go to the theatre and concerts on a more homogeneous basis, in part because these activities have been strongly subsidized by the state (Torche 2012). Thus, criteria of social distinction change and consumption standards become more demanding through activities that are meant to exclude an important share of the population (Gallo/Teitelboim/Méndez 2009).

This overall logic of class differentiation with the rise of the new-middle class has two important consequences to understand the financialization of consumption, and provides the relevant context to frame the credit stories and practices of Chilean families that will be depicted in the next chapter.

Generally speaking, one can say that growth and credit broadened the horizons of consumption across all income groups, creating spirals of consumption every time the increasing access to goods of aspirational middle-class put exert pressure on the upper classes to administer the criteria of social distinction. Inequality perpetuates these zero-sum games because social differences remain basically untouched in contexts of growth. In this way, the markers of distinction and success change, and consumption keeps expanding. Thus, better wages among middle-class workers do not close the gap between income groups, and the consolidation of their new lifestyles are followed by pressures for those above and below them in the social hierarchy to either take distance from rising socioeconomic groups by deploying new consumption patterns and tastes, or to catch-up with new consumptions standards. This, conversely, fuels the economy and provides a solid ground for Privatized Keynesianism to consolidate as a growth model.

Secondly, one can expect people to put special emphasis on purchasing and deploying goods with credit when *performing* their class identities in a context of changing social boundaries. This happens because purchasing power, which is ultimately used to acquire both durable and cultural goods, is the crucial criterion of social distinction in Chile. As Torche (2012) argues, unlike other countries with important racial or religious cleavages, culturally speaking Chile is a very homogeneous country; indigenous groups represent less than 5% of the population, more than 80% declare themselves as Catholics and foreign population is less than 2%. As a consequence, scholars have found that cultural differences and status stratification are strongly correlated with income and education, and that they are hardly distinguishable from each other (Torche 2012). Having access to goods and services on the market thus becomes the crucial marker of social distinction, which explains why unlike developed countries, going to the movies is in Chile a highly stratified activity, while consuming other cultural goods strongly subsidized by the government such as theatre is not.

The situation depicted above provides a key entry point to understand the financialization of consumption in contexts of upward mobility. If the new middle-class changed the social boundaries among socioeconomic groups by changing consumption patterns, and the main criteria of social distinction were strongly correlated with purchasing power, it would be possible to argue that there are strong pressures to consume beyond people´s means across all social strata, in order to deploy the proper consumption standards and perform their desired class identities.

Some evidence supports the aforementioned idea. Scholars in Chile have shown that, by prioritizing expenditures and allocating incomes, the so-called new middle-class workers seek to perform what they conceive of as their “expected” and “authentic” class identities (Mendez 2008). In this case, it is the indeterminacy of people´s status in a context of changing social boundaries that makes people pursue an “ethics of authenticity” when performing their class identities (status anxiety). As Salcedo/Stillerman (2010) conclude from their observations, interviews and focus groups with middle-low class young consumers in a shopping mall in the most populated municipality of Santiago (La Florida), middle-low class youth carry out practices of distinction from both poorer and richer consumers, for which they simulate practices of middle class adults. This goes in line with the research conducted by Salcedo/De Simone (2013), who argue that the shopping mall -and its associated consumption practices- became in Chile a crucial space to perform a sort of “imaginary middle-class”, not necessarily by deploying wealth and affluence in front of others, but by sharing with the family, going out and eating together.

Unfortunately, there is not enough research to know what this “imaginary middle-class” is like, but scholars studying the middle-class in Chile have systematically pointed out that there are clear signs that performing the “desired” class identity is a constant tension for Chilean families in the wake of changing social boundaries (Ariztía 2009 ; Mendez 2008; Mendez 2009; Salcedo/Stillerman 2010). Put this way, one can say that the” imaginary middle class” is a source of “status anxiety” every time the dynamics of class differentiation blurs social boundaries and standards of living become more demanding. As a result, being a middle-class citizen becomes a difficult task to perform, for which consumers deploy practices of distinction and consumption that are constantly –though indirectly- challenged by rising standards of living. This is probably nowhere else better depicted than in the fact that most Chilean families across all income groups see themselves as middle class families (Rasse/Salcedo/Pardo 2009). Paradoxically, the more families strive to perform the middle-class identity, the more the “imaginary middle class” becomes a more demanding standard of living, perpetuating the “status anxiety” of Chilean families.

To some extent, one can think of these rising aspirations that materialize in an *imaginary middle class* in part as an *imaginary community.* As with the *imaginary community* of the nation that Anderson (1991) described, the representation of an average *imaginary middle class* refers to a community of others you have never met face-to-face, but which you still claim to belong to (as the polls consistently show). As the *imaginary community* of the nation, the *imaginary middle class* is also a *limited* imagination because it has boundaries: the *imaginary middle class* distinguishes their members from the poor that receive government´s assistance as well as from the rich. The difference, however, is that the *imaginary middle class* is a residual category whose boundaries are not as clear as the ones of the nation, and remain constantly challenged. Unlike the *community* of the nation, where the issue of belonging can be institutionally and materially endorsed with citizenship and a passport, the belonging to an *imaginary middle class* has to be demonstrated, acted out and *performed.* That is why, as I argued, credit becomes for many the passport to a different form of citizenship based not only on entitlements but also in taking part in the benefits of prosperity.

In this sense, the way the *imagined community* of the *middle class* induces "status anxiety" and prompts people to consume beyond their means, resembles more the effects of the *predestination doctrine* on the actions of ordinary people, as Weber understood it: just like there is no other way to prove that one has been chosen by god than carrying out (performing) *worldly activities*, there is no other way to prove oneself and others that one is a middle class citizen than acquiring the "standard package" and catching up with the new fashions of the Chilean society.[113]

Of course, the extent to which these aspirations materialize in a collective representation of the "middle classes" is something difficult to prove in a quantitative fashion, although we know from surveys and marketing studies that there is an extended self-identification with being middle classes, and at the same time a perceived gap between people´s aspirations and their possessions. But the question if credit serves as a means to perform and reaffirm people´s class identities, can be rather assessed by looking into the financial practices of these households. This is one of the main goals of next chapter.

8.3.1 Social Mobility and the "Income Spike Effect"

A corollary of the dynamics of social differentiations is that one can expect people´s trajectories in the social space to be crucial in explaining how the social construction of aspirations and consumption

[113] As Weber puts it, "Work, and work alone, banishes religious doubt and assures one´s status among the saved" To what he added that worldly work "…could be viewed, so to speak, as the suitable mechanism for the release of emotion-based religious anxiety…" (125) Notice the formulation one gets when replacing the words "work" for "consumption" and "religion" by "status": "Consumption, and consumption alone, banishes status doubts and reaffirms one´s status among the saved" And consumption "…could be viewed, so to speak, as the suitable mechanism for the release of emotion-based status anxiety…"

standards shape the utilization of credit. As our credit stories will depict in more detail, the "social origins" of families play a major role in the way people conceive debts, money and consumption. This sheds light on subtler mechanisms through which a re-configuration of the social structure shapes the logics of indebtedness by changing reference groups and the trajectories of individuals in the social space. An important mechanism boosting the demand for credit is what I call the "income spike effect", or the effect that sudden upward mobility has on financial practices. In this regard, Pinto´s (2004) study on the indebtedness of miners in one of the subsidiaries of Chile´s National Copper Corporation (Codelco) is very illustrative.

Although Pinto´s thesis was meant to serve as a guide for the Human Resources Department, it gathers interesting information about the relation between debts and standards of living. In particular, the study is interesting for our purposes for two main reasons: Firstly, unlike most employees in Chile, Coldeco´s indebted workers with indefinite contracts –the subjects under study- enjoy stability and important benefits associated with public institutions, special benefits (subsidies to pay for electricity, water and gas, scholarships and in many cases housing), high levels of unionization, successful bargaining experiences, and earn wages over the national average.[114] In this particular subsidiary (currently known as "Coldeco Norte"), for example, miners used to perceive wages 10 to 20% higher than those in the private sector and over outsourced miners.[115]

On the other hand, in Pinto´s study 70% of Coldelco workers have only secondary education, 20% a technical degree, and only a few of them are professionals (around 8%). This means that most of Coldeco´s indebted workers under study have experienced impressive upward mobility, coming from very poor backgrounds to enjoy wages over the national average, stable working conditions, and aspirations of improvement guaranteed by the most successful and biggest unions in the country. This means that they are at the other extreme of the vulnerable, non-unionized, poorly rewarded and indebtedness worker traditionally depicted.

Of course these working conditions and wages make workers very attractive for department stores

[114] According to estimations of Durán/Kremerman (2015), workers from the mining sector in Chile perceive higher wages that their counterparts in Commerce or Industry. While 70% of workers in the Commerce sector earn less than USD 600monthly income, only a half of workers in the mining sector earn wages below the USD 1300.

[115] In 2011 80 to 90% of the wages in Codelco were fixed, versus 50 to 60% of the wages in the private sector. http://www.economiaynegocios.cl/noticias/noticias.asp?id=86653. According to estimations of the industry, the base wage of a productive worker reached in 2008 around USD 1400 -versus USD 580 of an outsourced worker, which increases to USD 2200 with extra hours and bonuses. In the biggest subsidiary (Codelco Norte), a truck driver or a "palero" that fills the wheelbarrow -considered the most elemental work among miners- earns an annual income around USD 6000 before paying social security, while a non-professional in the administrative staff earns around USD 2600.

and banks when it comes to having access to credit, something that these workers –and Chilean consumers in general- perceive as a source of status and recognition. Like most Chileans, they spend many hours in the shopping mall inaugurated in 2002 (Mall Calama) and later re-opened as "Mall Plaza Calama" in 2011 when the big department store Falabella became the owner, which, according to the testimony of one of the workers, altogether brought to the arid and quiet city of Calama the "freedom of choice" that people enjoy in the big cities. According to what we can see in Pinto´s interviews with indebted workers, different phenomena account for their indebtedness. To start with, workers recognize the strong incentives to consume, to buy things in the shopping mall, a car for the very first time, hopefully a 4x4, and better clothing. But more interestingly, they perceive the problem of "consumerism" that hunts workers in the sector as a mismatch between education and income. As one of them puts it:

> "What happens is that people (…) buy and buy because that makes them feel good with themselves, and also to show something they are not. That is typical in Calama (the city), a lot of money, no education (...) wages are high, so these buddies do not have education but have a lot of material things, which they deploy to show something they are not" (Pinto 2004, p98)[116]

This simple quotation provides two key insights to understand the underlying *pragmatics* of credit/debt relations. Firstly, it clearly shows that new consumption standards of less educated workers - facilitated by credit- call into question existing social boundaries, and irritate the traditional middle-class. "Buying with credit" in this sense becomes a synonym of "consumerism", and a label with which these rising middle-class workers are normally classified. If one reads between the lines, credit is seen as a means for helping people reach "spurious" identities, "being something they are not". As such, labeling these workers as "consumerists" is a clear indication of the "status anxiety" among traditional middle classes.

Secondly, if one takes some distance from one´s first impression (consumerist workers!), the underlying phenomenon seems to be that the turning point where people move out of poverty and change their reference groups, somehow makes people consume beyond their capabilities and acquire debts. So, does this mean in the end that these workers are consumerists or not?

The answer to the question posed above is both yes and no. One could say that they are "consumerists" because many of them consumed and acquired debts beyond their means, and used more

[116] "Lo que pasa es que a la gente no le interesa saber cosas sino tener, no están ni ahí, compran y compran porque eso los ayuda a sentirse bien con ellos y también ostentar imagen de lo que no son, eso es típico acá en Calama, harta plata y poca educación (...) los sueldos son altos, entonces los viejos no tiene educación pero tienen muchas cosas materiales y con eso ostentan y muestran algo que no son" (Operativo Endeudado Planta N° 2).

than 50% of their monthly income to serve their debts. But this consumerism has less to do with a hedonist consumer that seeks self-gratification and status. As interviewees consistently point out in Pinto´s work and in our fieldwork with middle class families, there are two phenomena at stake that shed light into the indebtedness of this emerging working class. First, managing money and wealth is a learning process. As it will be shown in the next chapter, “consumerism” and over-indebtedness might only be a phase in a usually long-lasting relationship with credit. Workers that never had money before learn how to deal with their higher incomes and debts by experiencing traumatic episodes, or learning from others´ experiences. In parallel, upward mobility in many cases triggers a sense of “euphoria” that can have disastrous financial consequences. To some extent, according to these testimonies, being impulsive or “not denying oneself anything” stems, in many cases, from previous experiences of poverty and material constrains. In this sense, displaying wealth is both the expression of a sense of pride regarding one´s achievement, as well as a clear way of erasing traumatic experiences and the markers of one´s social origins. This might become even a more demanding task in a context where social boundaries blur, and a subtle way in which performing one´s class identity leads people to acquire debts. Indeed, having discretion over one´s income and moving away from daily restrictions is part of the imaginary of the “middle classes”.

Broadly speaking, one can encompass these ways of acquiring debts as manifestations of what one can call the “income-spike effect”, or the fact that abrupt upward mobility leads people to acquire debts and spend money beyond their capabilities. As I further depict in chapter 9, the way this happens might differ. Thus, for example, some people just lack the practical skills to handle their “new money” and “credit availability”. But many people also become excited about getting a credit card or available balance because credit is a source of recognition in the Chilean society, just as being on the black list of a credit bureau is bad reputation. Indeed, being recognized by lenders as a “subject of credit (something they exploit by differentiating their products), means being trustworthy and recognized as a potential customer (exaltation of *credere*). This, in part, explains why consuming through credit in Chile does not have a negative moral connotation for debtors: in a context of “status anxiety” becoming subject of credit is a source of recognition and a passport to the ritual of consumption, an invitation to take part in the modernization of Chilean society.

These two sides of credit/debt relations, being considered as “consumerist” by those on top the hierarchy, and feeling proud when recognized as a trustworthy person, are manifestations of the “status anxiety” latent in the Chilean society. It resembles the “status anxiety” of those that feel threatened by new consumers, as well as the anxiety of those that want to participate in the benefits of growth and become part of the imaginary middle class. I will come back to this issue in the next chapter. What should be kept in mind now, is that class differentiation dynamics and people´s trajectories in the social space provide crucial coordinates to locate the financial practices of Chilean households, a largely ignored issue in the specialized literature.

8.5 Consumption, Cultural Changes and Debts

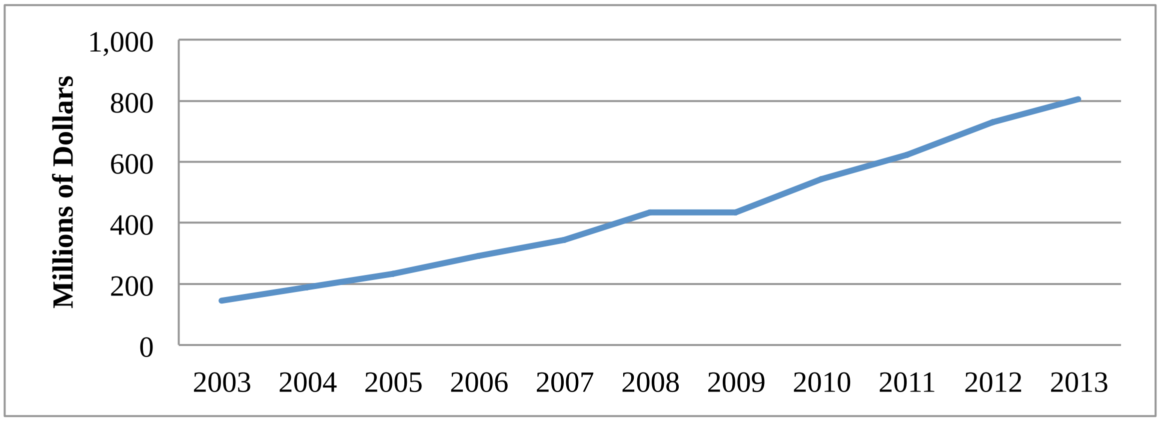
Finally, one has to consider the role played by cultural changes in shaping the anxious perceptions about one´s and others´ success, and ultimately contributing to increasing the gap between aspirations and incomes. As many critics have noticed, the rise of the consumer –cause and effect of the expansion of finance- has been associated with the crucial role played by the market in the constitution of people´s identities, which replaced "work" as the sphere of personal and collective realization (PNUD 2002; Moulian 2002). As the standard narrative argues, if the past was marked by the central role of collectivities and political belonging, now the sense of "us" weakened and gave way to increasing fragmentation of subjectivities and individualization processes (Güell 2012; Martuccelli 2012b). As a corollary, people perceive themselves more as consumers and competitors (Engel/Navia 2009), rather than as workers or belonging to a political community; they share a strong sense of individual responsibility in shaping their life-course and embrace the meritocratic values, especially among the middle-class (Bazoret/Fierro 2011). According to the common interpretation, this is nowhere better reflected that on the fact that while people spend more and more hours in the shopping mall and watching TV, their political engagement has decreased steadily since the early 1990´s (although this causal relation has not been entirely proved, see Scherman (2009)). In tune with the Frankfurt school, most critical observers have argued that workers, previously the incarnation of a historical subject, now feel much more comfortable and seduced with the "party of consumption" (Moulián 1998).

The importance of the market and the decline of collective identities is seen by many as an indicator of *individualization* processes, according to which people seem to care much more about building their own identities and biographical trajectories in relation to abstract reference groups, rather than following collective projects (for a review of this literature in Chile see Yopo (2013)). Life-styles are, accordingly, increasingly mediated with reference to the market and shaped by the imperative of late modernity according to which, in Giddens (1991) terms, "We have no choice but to choose" (Güell 2012; PNUD 2002). Under this imperative, our apparent capacity to choose in every instance –what to wear, eat, listen or do- is reflected on a social identity that resembles the history of one´s decisions, creating an inevitable anxiety and the quest for stabilizing one´s self-identity. Such process implies that consumption and the manipulation of meanings attached to goods should be administered and conveyed in ways that our identity be made available to others (Warde 1994).

In Chile, the process of individualization finds a crucial expression in a sort of "aestheticization of everyday life", characterized by an increasing concern about the stylization of the self (PNUD 2002). This stylization relies on the fact that people increasingly believe that their success depends on "appropriate cultivation" of the "self" through body projects, developing personal style or dieting, to mention a few (Zukin/Smith Maguire 2005).

The "appropriate cultivation of the self" seems to be an important social process fostering spirals of consumerism, or, at least, contributing to the expansion of consumption and credit. As already sketched in chapter 5, Chileans are much more concerned about their appearance and spend considerably more on beauty products than in the previous decades, a change that noticeable in the lowest income groups. This is a trend that started in the nineties and continued expanding during the 2000s, from which the impressive rise of imported of perfumes is only one example (chart below).

Figure 46: Evolution of Imported Perfumes, 2003-2013



Source: Data from the Central Bank of Chile

But there are probably no better examples to illustrate the increasing importance that "investments in the self" have gained than the direct body interventions throughof fitness training and esthetic surgery, embodied markers of lifestyles that became increasingly important for Chilean consumers. Fitness centers, for example, proliferated in the last years beyond the traditional districts in the city center and upper class neighborhoods. If by 2007 there were only 75 fitness centers in Santiago, by 2011 the newspaper "La Tercera" counted 129 of them. Only in the most populated district of Santiago, "La Florida", for example, there was only one fitness studio in 2007, while in 2011 it was possible to find at least 8 of them. This change has been so important, that in 2014, the National Bureau of Statistics (INE) incorporated expenditures on fitness centers into the set of basic goods with which the price index is calculated.

Plastic surgery for aesthetic purposes, on the other hand, has seen an impressive expansion during the last decades, in part caused by the increasing exposure to local celebrities that legitimate direct interventions in the body. In Chile there are no good data on plastic surgery (mainly because of its private character), but estimates made by the newspaper "Cambio21"[117] suggest that these interventions increased

[117] http://www.cambio21.cl/cambio21/stat/movil/articulo.html?ts=20120615173648

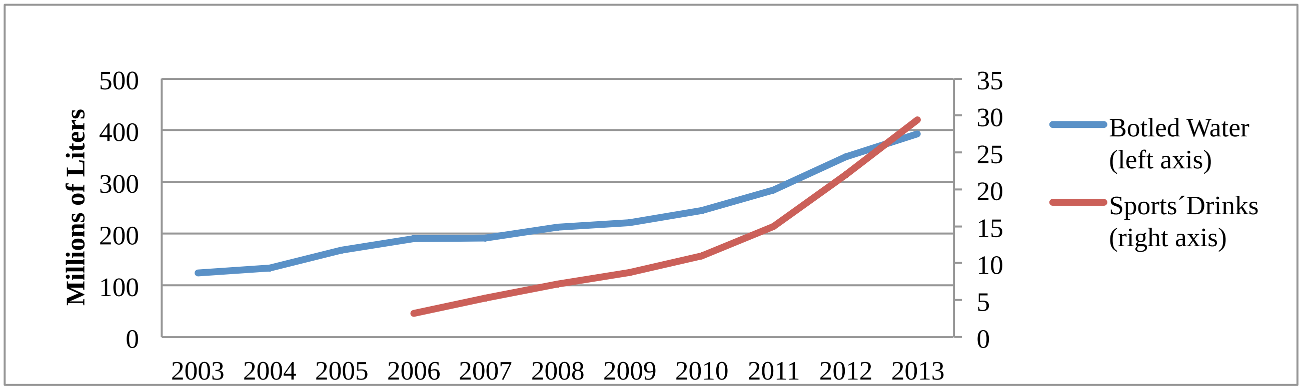
between 1992 and 2012 in at least 150%, which lately found an important niche among young consumers. Nowadays, this is so popular that it is possible to find "groupons" and "gift cards" to undergo breast implants and liposuctions, among others, which seem to increasingly attract the attention of consumers under age 18.

Plastic surgery might become more important in the future. In the past years, the aestheticization of everyday life gained a renewed impulse with the possibilities boosted by the new information technologies. Social networks, which are increasingly available with the penetration of the Internet and smartphones, made people much more aware of their physical appearances (not to mention global reference groups of celebrities in all fields). The practice of taking pictures of oneself or "selfies" in order to share them on social networks is an exemplary catalyst of these processes. In Chile, according to a survey conducted by the Faculty of Communications of the Universidad Católica de Chile with 1345 people aged between 18 and 35, 80.3% of respondents have at least taken a picture of themselves or "selfie" during the year, and only 5% do not share them on the social networks; an overwhelming 98.2%, on the other hand, declares to have friends that share their "selfies" with them.[118] This trend seems to be related to the increasing concern about shaping the body among young people. As the annual survey of the American Academy of Facial Plastic and Reconstructive Surgery conducted in 2014 found, "…one in three facial plastic surgeons surveyed saw an increase in requests for procedures due to patients being more self-aware of looks in social media",[119] especially among youth.

New and more stylized lifestyles are demanding because many of these goods and services come in packages. This means that the more people engage in specialized activities, the more they have to spend on sets of goods (Warde 2011). Fitness training is a case in point. It is a "fixed" and expensive activity; people are required to pay an initial fee plus a monthly payment; it also demands a proper outfit and it entails, in many cases, the consumption of dietary supplements. As Rodríguez et al. (2011) argue, the increasing importance of fitness centers in Chile went hand in hand with the flourishing of the industry of dietary supplements. This might explain why the consumption of both "bottled water" and "sports´ drinks", two goods that nobody would have considered important more than fifteen years ago, explosively expanded in the last decade.

[118]Available at: http://tren-digital.cl/estudio/cultura-selfistica-en-chile/
[119] Available at: http://www.aafprs.org/media/press_release/20140311.html

Figure 47: Evolution of Sold Liters of Botled Water and Sports Drinks



Source: Data from the National Association of Beverages

That goods come in packages is something marketers know and seek to exploit. Nowadays, these "packages" include from fashion to cultural goods. In this spirit, for example, the advertisement of the festival "Lollapalooza" sponsored in Chile by a department store in 2013 reads as follows, "*Don´t you know what to wear in Lollapalooza? We show you here three different outfits to inspire you*", followed by a description of three items of clothing, footwear and accessories that depict a "relaxed surfer", "someone different" and "the comfortable and stylish look" (which even includes a bike).[120]

These cultural templates play an important role in shaping the consumption dynamics in societies that reached a certain threshold of affluence. But if there are notorious processes of individualization in Chile, it is worth asking whether the imperative of building more stylized lifestyles becomes a motive for most people to consume beyond their capabilities. Undoubtedly, the stylization of the self, for instance, creates pressure on many consumers and makes lifestyles more demanding. But, to what extent is the main orientation of Chilean consumers?

There is apparently a blurry line between higher aspirations, the social definition of proper lifestyle, and people´s quest for differentiation. As Ariztía (2002) showed, wage earners from the middle sector in the late nineties were spending money on clothing and self-care products considerably more than other occupational groups. As he interprets this change, in line with post-modern theories of consumption, such pattern could be understood as the result of individuation process and a progressive stylization of

[120] Peterson (2005) argues that the differentiation of lifestyles is reflected on the great range of clusters that increasingly sophisticated marketing studies have detected. In turn, this had performative consequences because marketing actors –cultural intermediaries according to Bourdieu- seek to predict and shape existing differentiations and systems of distinctions. In particular, marketing agents, a crucial agency shaping markets, "package" systems of distinctions as "sets" of goods and practices that when carried out altogether define certain lifestyles (which is not different from what Bourdieu meant with the concept of *structural homology*).

everyday life, where the act of performing one´s identity is increasingly mediated by the need of establishing differentiated lifestyles. But this is somehow hard to confirm, says Ariztía, and as studies in marketing showed, these groups were more than anything concerned about having a “good appearance” (*Buena presencia*) than creating particular lifestyles. The so-called "good appearance” in Chile has to do with the attempt to conform oneself with others expectations of decency, especially in the occupational context of the service sector where appearance matters considerably more than in other domains.

Marketing studies provide interesting insights to clarify this issue, or at least to provide some perspective. The marketing consultant firm "The Lab Consulting” has been applying in Chile the Cross Cultural Consumer Characterization, known as the 4C´s since 2001. This classification seeks to go beyond traditional marketing characterizations and builds a profile of consumers based on brand preferences, motivations, lifestyles and class. In Chile, they have conducted an annual survey with 2000 consumers in the main urban centers of the country and the last report provides interesting insights to understand the changes among Chilean consumers in the last ten years.

The characterization distinguishes 7 types of consumers that provide a glimpse of the major trends among Chilean consumers. “Simulators”, which represent around 16% of the population, are defined as materialistic, ambitious and motivated by the opinion of others. Depicted as “status seekers”, they seem to worry about fashion, appearance and to show off their accomplishments to others more than anything. This group, which has gained importance during the last ten years, embodies the aspirational and emergent middle-class that feel some fascination for luxury and branded products. In this sense, we could expect these consumers to be in part a resemblance of the processes of individuation previously depicted and, as it will be seen in the next section, these consumers might be more prone to be affected by the increasing wealth of others (trickle down consumption effect).

But this is not an accurate characterization of the “stylized consumer” of post-modern theories of consumption. Indeed, one finds more individualized and independent consumers that the so-called “reformers" and “explorers”, two profiles representing a sort of avant-garde, that might well embody the “new stylized consumer”. These groups altogether represent around 13 and 9% of Chilean consumers, and are characterized by being concerned about exploring new products (mainly technologies), building original styles, and establishing new orientations and trends.

Interestingly, the most important profile of Chilean consumers in the last decade has been the “mainstreamer”. These represent around 33% of the population, and their main concerns are security, social belonging and acceptation. These consumers are depicted as oriented towards the family, conservative in terms of consumption preferences, and rather than showing-off their main motivations are more concerned about care relations. This group is giving way to the “simulators” during the last ten years, but it is by far the most important profile of the Chilean society. This group seems to fit the credit-stories that I will depict in the next chapter. In this case, I will show that they also feel anxious about their status, and their incomes seem to be not enough to satisfy their needs. But the way these consumers use consumer credits are less driven by consumerist fever than by a subtle expansion of their expectations. In many cases, credit is used as a way to enhance the performance of the self, as well as to comply with more demanding esthetic canons. But this way of using credit is not necessarily driven by hedonist motives, but rather by the need of complying with normative expectations of “decency”, especially for those that experience upward mobility and deal with the barriers to entry into their new social networks.

On the whole, dynamics of consumption, social comparison and class differentiation sketched throughout these chapters are still very general. The question now is what signs of “status anxiety” we can find in the actual practices carried out by consumers. And what is the everyday building of the middle class identities and the socially constructed standards of living. The next chapter tackles these issues by looking into the concrete credit-stories of middle class Chilean families.

CHAPTER 9 CONSUMER CREDIT AND THE STATUS ANXIETY HYPOTHESIS FROM "BELOW"

Chapters 7 and 8 aimed at exploring how different social dynamics might account for the rising indebtedness of Chilean households in contexts of collective improvement and inequality. I explored the possibility that in such scenario consumer credit closes an existing gap between people´s aspirations and their incomes. I argued that better living conditions and collective social mobility –whether fostered by social policies or higher wages- ratcheted up the standards of living, which, due to high levels of inequality, created the perception that many families are "not taking part" in the benefits of growth. In this sense, I sketched a few social processes that explain how Chilean families become systematically anxious about their own status (especially among the middle-class). Among them, I sketched the role played by social comparison, more demanding consumption standards, "relative poverty", rising expenditures of wealthier consumers, cultural changes and dynamics of class differentiation. But does this mean that Chileans are essentially consumerists? What is the dividing line between consuming beyond one´s means and complying with socially constructed standards of living? How are these aspirations fulfilled, and what is the role of consumer debts in practice?

This chapter tackles these questions from a qualitative perspective. In line with the "status anxiety" hypothesis, some financial practices are better described by making reference to individualization processes, class differentiation dynamics, the feeling of "being excluded", or a more subtle transformation of people´s aspirations throughout their life-trajectories. In the sociological spirit of classifying and sorting debtors, these processes might describe in a more accurat way the utilization of credit of some families over others. But the truth is that the "way people use credit" cannot be reduced to "what people buy with credit", no matter whether people buy luxury goods, home appliances or clothing items, or they use them to finance investments. The financialization of consumption should be rather framed in the whole symbolic and material universe of the household, the trajectories of families, their turning points and life-cycle transitions. Regarding this perspective, it becomes clear that the financial practices of one and the same household changes with time, and can be depicted from the perspective of different theories of consumption, in different points of their "credit-trajectories". This happens because being indebted is not a monolithic phenomenon, but rather a process that has different stages, turning points and denouements. As the following sections seek to depict, the same family can mobilize debts to materialize expectations of social mobility and fulfill class identities (moving to one´s home); take risks and attempt to improve their position (turning debts into capital); participate in social rituals and commitments (making gifts to others); managing care relations (making gifts to the loved ones;) or reaching some sense of independence (making gifts to oneself). In the process of embracing credits into their everyday life, most people learn how to handle debts, deploy strategies, and their consumption aspirations and attitudes towards debts change.

In order to show this in more detail, the chapter proposes a different approach to the qualitative studies of debts, which is to focus on the relationships between financial practices and life-trajectories of families. This longitudinal perspective helps sheds light into the trajectories of debts and how these intertwine with the life-trajectories of families in the social structure. The chapter is organized as follows:

The first part outlines a credit-story of an average middle-class family in order to show how a family that experiences upward mobility embraces consumer debts in different stages of the life-cycle, helping us recognize particular turning points and practices that are present across all consumers.

The second section characterizes one of the most important life-cycle milestones for the acquisition of consumer credit, which is "moving into one´s own home". This is a crucial mechanism explaining the indebtedness of Chilean households in a context of increasing homeownership, rising aspirations of wealth accumulation and social mobility. The two credit-stories depicted in this section show how the same process can have very different outcomes, embracing credit as a normal affair or going into financial distress.

Then the chapter moves on to depict some of the financial and consumption practices identified in the previous credit-stories. The section changes the methodological strategy and relies rather on a cross-sectional perspective to depict financial practices across different consumers, such as taking credit by chance or making gifts with credit. The chapter finally provides some conclusions and outlines a few lessons we can learn from the qualitative study of debts in contexts of improvement.

9.1 Mobilizing Consumer Debts

Mauricio and Pamela, a couple in their mid-30s live in a 40 square meter apartment with their son –Franco- in La Granja, a middle-low income district in Santiago. The apartment belongs to Pamela´s mother, who lives in the same building. They both have a job and during the last fifteen years experienced a slow but steady improvement in their incomes and living standards. Both contributed to this process. Pamela used to work as a free-lance sales agent for many years, and then worked as an assistant to a dentist while she studied nursing with the help of a student loan. Nowadays, she has been working in a hospital for a year, where she has a work contract and receives a stable income (of around USD 600). Mauricio, on the other hand, worked as a waiter for a few years after finishing his technical school and then, when his son Franco was born at age 23, he worked as a welder, improving his position over time. As assistant, he earned around USD 600 -less than USD 1000 that he earned as a waiter- but in a span of seven years he reached the USD 1200 as a "1st class master". In 2006, he decided to leave his work as a welder and explored the parallel activity he had pursued for several years as a martial arts instructor, in part because he felt that he was not fairly remunerated as a "1st class master". After two to three years, however, it became clear that martial arts would not bring him the expected income. A USD 800 income was simply not enough for his aspirations; Mauricio wanted to go out with his family, go to the movies and have a car, as he points out. According to him, it was merely an aspirational issue. He moved then back to his old job in 2009, and then an opportunity came up to become independent and Mauricio experienced an important improvement. He earned now slightly over USD 2000 as an independent contractor, and became an employer for the first time. By the time of the interview that was his main occupation, and the family per-capita income reached around USD 900, which places them between the fourth and fifth income deciles.

The whole life-trajectory described above is the context in which Pamela and Mauricio progressively embraced the utilization of consumer debts, becoming a permanent extension of their incomes. Like many consumers, Mauricio acquired his first credit card by chance. He was working as a waiter in a cafe in a shopping mall in 2000, just in front of a department store, when the saleswoman who stood at the entrance offered him an immediately approved credit card. He obtained the credit card with USD 200 credit line, which he used later on to apply for a new credit card in a different department store. This is a special feature of department store credit cards: lenders are willing to issue a credit card by verifying that the consumer already has a credit card in a similar institution. That is why these credit cards usually come in pairs.

By then, Mauricio considered credit cards unnecessary; he was single, had no kids and had always carried some "cash money in his wallet". Rather than accessing new goods, this credit card allowed him to enhance those he already had, which basically meant "branded" products, a "good" tennis racket and "better" clothing. He used this credit card a few times, although he was not a regular consumer.

The second credit card was used later on in a different way, when his mother required a few medicines. The idea was to use Mauricio´s USD 200 credit line to buy these medicines immediately. He would pay the debt with the help of his three brothers, but nobody paid in the end: Mauricio lost his job as a waiter and his brothers just forgot to give him the money. He was not really worried about paying that debt. He finally got a letter from the department store telling him that he was on the black list of Chile´s credit bureau, Dicom, and Mauricio did not use any sort of credit for around four years.

Their second experience with credit took place once he was living with Pamela and his son Franco was born. They borrowed the department store credit card from Pamela´s mother to get expensive "cash withdrawals" that they used to buy some medicines for Franco, who, by that time, became sick very often (he had a three year long pneumonia). These expensive credits helped them smooth these expenses without changing their lives too much (a sort of "soft defensive consumption"). According to Pamela, by then they could have afforded the medicines without using credit, but with difficulty. They used to spend around USD 80 a month on these medicines.

But the most problematic time came when Franco´s health worsened and it became clear that surgery was the only option left, around 2004. By then, Mauricio and his son had private health insurance (Isapre), so they managed to face the overall costs of medical care and the surgery. Nevertheless, in this period they used the department store credit card of Pamela´s mother ("cash withdrawals") more frequently in order to carry out the medical exams in a private and prestigious clinic. According to Pamela, it was necessary to spend more money on the clinic because this was much more efficient in issuing Franco´s exams (besides the fact that they considered the public health service bad). In the end, after much time went by, they wanted to know as soon as possible what was really going on with Franco´s health. The point was not that they were not protected nor that they faced incredible costs associated with Franco´s health problems. But that they knew that by paying a bit more, he could receive faster and better quality attention. Credit made this possible.

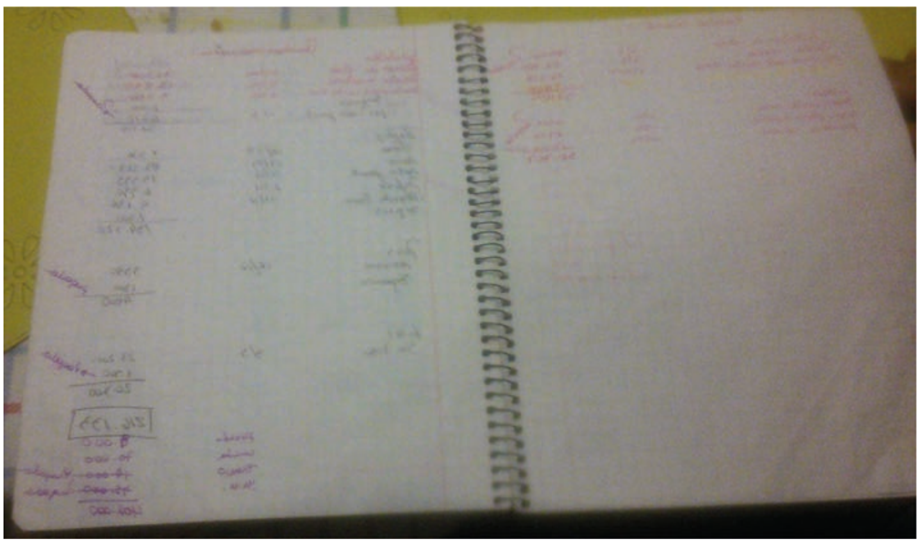
The whole period of the illness took around five years, where Mauricio and Pamela used to withdraw money with the credit card at least once every three months, and in some occasions more than once a month. They never bought anything on credit at the department store; they only used cash withdrawals of around USD 400, which they normally paid in six to ten installments; 6 when they were in good financial situation and 10 in times of constraints. Economically speaking, it was a very hard time for both, especially for Mauricio, who was in charge of paying all the bills. They indeed have a particular division of labor within the household. While Mauricio takes care of the basic expenditures (housing, basic utility services, food and clothing), they *earmark* Pamela´s money as discretionary income, which they save, or spend on going on vacations, buying extra clothing or going to the cinema. By that time, those expenditures were very variable, as was Pamela´s income.

After a while, once Franco recovered from the surgery, Mauricio obtained a new credit card, this time a Master Card issued by the retailer "Lider" (now Walmart). Although he got it when he was passing through the supermarket, he had the idea of acquiring a credit card for a while, in part motivated by the fact that he started working as an independent contractor. According to Mauricio, he needed some "liquidity" to conduct his business, and required more autonomy with regard to Pamela´s credit card (associated with the account of her mother). They use nowadays this credit card very often, 60% to run Mauricio´s contractor business, and the rest to "buy some stuff" and pay some bills, according to his estimations. At the moment of this interview, they had used their credit cards for at least 7 years.

What did they purchase with these credit cards? Nowadays they tell themselves –laughing- that they are consumerists: they go to the store looking for something and come back home with something else. But in the end they argue that they basically buy things they consider "necessary", such as a "juicer" to prepare some drinks. They usually make a list of those things they "need", not in an urgent sense, but in the sense of things that might be useful and comfortable to have. Thus, for example, they knew for a while that they had to change the sheets of their bed. They were not planning to buy them specifically, but once they were at the department store and Pamela noticed that “good quality sheets” were on sale, they just bought them with their credit card. Interestingly, with these things they “needed”, they could also become more independent from their relatives. As Mauricio puts it, “Now, for example, we need an electric grill…we don´t need it, but we want one. If we want to make a barbeque, we have to go to the next block (where his mother-in-law lives)”, which ultimately means that they depend on others. With a new grill, the family would be able to manage their own “time” and become a more independent household.

Mauricio and Pamela register the purchases in a book they keep in a cupboard at the living room. In this book, it is possible to find, every month, a detailed list of the things they bought on credit, such as a refrigerator, clothing or a video game, and the installments they have to pay.

Figure 48: Mauricio´s and Pamela´s “Book keeping”



The video game, for example, was not a planned acquisition, but they just “had to” buy it on credit. It was Christmas and Mauricio was confident about a project he was investing money on, so he promised Franco that he would get the video game. But it turned out that the project did not work as expected and Mauricio lost a lot of money. Nevertheless, it was almost January, a good season for Mauricio´s job, so he decided that he could buy Franco´s video game (around USD 600) at the department store in 15 installments. This was a “precautionary” decision, because they usually pay everything in 6 installments, they try to avoid interest rates, and want to get rid of the debt as soon as possible (probably to buy something else, since they never have a zero balance). This resembles a very common practice among Chilean consumers that is invisible to surveys, which is that people use credit cards to make “appropriate” gifts. In this sense, debts are *embedded* in the *relational work* of families, which resembles very much the profile of the "mainstreamer" that seem to care about family relations and security rather than everything else. Equipping one´s son or the loved ones with the proper tools –goods- is indeed a main driving force of many indebted parents.

In general, Mauricio is very organized; he is "the type of person" who goes to the supermarket with a calculator and a list at hand. They remember only one time when Mauricio lost control over their finances. It was around 2009 when he stopped working as a martial arts teacher, began working independently and obtained a very good contract. Suddenly, from earning USD 800 he jumped to earn USD 2000 income. That changed his lifestyle and, in his words, he "became a bit crazy with the money". This is a similar mechanism to that of the indebted miners I referred to in the previous chapter, what I termed the "income-spike effect". Once Mauricio´s salary increased, he did not save more money –contrary to Keynes´ predictions- but started smoking better cigarettes; he stopped buying "jeans" in the supermarket and got "branded" ones; his shirts costing now USD 60. Although he saved some money to buy machinery to start his own business, Mauricio argues that in this period of excitement, he spent most of that money on "things that do not last".

But despite Mauricio´s early experience with the department store credit card that was closed, and the euphoric moment that a higher income brought in 2009, he and Pamela never had troubles with their debts. As one notices, they keep track of their debts very closely. They estimate that they could allocate a monthly amount of USD 500 to pay installments, although they are always paying around USD 280, which means that they still have "room" to eventually acquire more debts. Moreover, in the last months they also decided to "put all their debts" into Pamela´s MasterCard, basically because they can keep track of their debts more easily when having them only on one account.

At the moment of the interview, Pamela and Mauricio were preparing themselves to enter into an important life cycle transition. They wanted to acquire their own home, which is what they have been saving for the last year, to apply for the housing subsidy and a mortgage in 2015 to move to a better place. To materialize this "dream" however, they foresee important expenditures in the future.

In the scenario above depicted Mauricio estimates that he and Pamela will need to acquire some debts because most of their home appliances belong to Pamela´s mother. This is actually why they never invested too much in that home, except for the "extra-room" that Mauricio built close to the living room to put the kitchen when they moved in there. To some extent, they knew they would not stay in that apartment forever; they feel that that place "is not for them". In the spirit of fulfilling what they perceive as their true class identity, the apartment was not only too small and too noisy, but they feel that the people around are different, with other aspirations. As one can expect, extra credit line will become necessary in the process of moving out into their own home, especially because rather than bringing with them the old stuff that they inherited from Pamela´s mother, they want to have the "things they want to have", i.e. things they choose, such as a new living room, a dining table and curtains. All this, as they argue, requires them to have more “balance” in their credit card, for which they plan to switch to a different department store.

The credit-story of Mauricio, Pamela and Franco depicts more clearly some of the processes outlined in the previous chapters and show that rather than a clear “debtor-profile”, their ways of mobilizing debts change over time. They obtained their first credit by chance, tempted by the organizational strategies of lenders that intercept the trajectories of consumers almost everywhere. While this credit served to expand Mauricio´s purchasing power and buy “better stuff”, a borrowed credit card –a very common practice I will review later on- helped them sort out the health problems of their son. This was not about being able to pay for medical bills, but to obtaining a better attention if that was possible.

Unlike Mauricio´s early experience, this time Pamela and Mauricio learnt how to handle their installments, which were much more regular and for an extended period of time. Later on, acquiring debts became a normal practice, with which they would “think of” what they consider as necessary, such as gaining some independence from their relatives with their own grill or not disappointing Franco during Christmas. In this way, Mauricio also used his credit line to run his business. Nowadays, in line with the idea that families seek to perform their desired class identities, they prepare themselves to face one of the most important life-transitions of Chilean families, moving to their own home. Occupying their “real place” in society and creating their own identity will require many expenditures, for which credit will be necessary. This is the life-cycle transition I depict in the following section.

9.2 Debts and the Life-Cycle

From the previous story, it becomes clear that the financialization of consumption is not a monolithic phenomenon but a process where debts are progressively embraced. An important feature of this process is that the utilization of credit is shaped by normative expectations with regard to care relations, standards of living and life cycle transition. These are crucial issues to understand how financialization works by shaping the socially constructed consumption standards and people´s aspirations.

Life-course studies have suggested the crucial role of the social meaning that different cohorts and societies share about the “social timing”, that is, the “…incidence, duration, and sequences of roles, and to relevant expectations and beliefs based on age”. (Elder/Johnson/Crosnoe 2006). Life-course studies hold that it is in part through the “social timing” that multiple trajectories and their synchronies and asynchronies are shaped (Settersten 2006). Maybe a fresh insight from these studies is that life cycles are attached to normative expectations regarding time, sequences and transition during the life-course. Such expectations work as cognitive maps and/or norms according to which the organization of one´s and others lives are assessed, as well as the different activities and roles that one might expect along a “normal expectable life cycle" (Settersten 2006). These normative expectations are not only negotiated among peers, but are also related to the institutional life-courses that are defined in the domains of education, labor and retirement. According to such view, the traditional "life cycle" hypotheses that lies behind economists´ explanations of indbetedness, are contrasted with the normative and socially constructed "life cycle" of sociology. In this sense, the normative property of life transition holds true for big investments throughout the life-span, such as getting a mortgage or financing college education; decisions related to less salient expenditures such as going on vacation or financing a wedding or simply ordinary forms of consumption such as buying groceries at the local supermarket.

In this spirit, I outline here two similar credit-stories that show the role of life-cycle transitions in shaping both people´s expectations and their financial practices. In particular, continuing the life-course trajectory of the previous credit-story –a family saving to buy their own home- I want to depict now the specific milestone of "moving to one´s home", a crucial life-cycle transition where Chilean families seem to embrace consumer debts in a systematic fashion. In this process, families seek to materialize their class identities in a context marked by rising expectations and contested social boundaries.

9.2.1 Improving and Decorating the Home

The so called 'home ownership dream' is among the most pervasive and demanding aspirations of Chilean families -and arguably families everywhere. Moving to one´s own house is attached to a sense of autonomy and achievement that reflects a successful trajectory, a key indicator of citizenship that is constitutive of making up a family (Ureta 2007; Bourdieu 2005). But making a house one´s home is something different from acquiring property. It not only entails an enormous economic effort, but it also requires people´s active engagement in appropriating the space. By making sense of their new houses through home improvements and decoration, people make sense of their class trajectories and perform their new position in the social space (Ariztía 2009). Therefore, moving to one´s home entails an important effort to buy what is considered to be appropriate. Interviews indicate that consumer credits – both installment and revolving- are in many cases incorporated into the modus operandi of families at the moment of 'moving to one´s home'. Indeed, according to the Financial Survey conducted by the Central Bank in 2009, from those households that hold department store credit card debts, an overwhelming 70 percent declared that they acquire them to buy home appliances. This is a practice that Chilean families consistently refer to as *sacar cosas* or literally 'to take out stuff' from the department store. *Sacar cosas* to improve or decorate one´s home is a practice through which consumer debts can be routinized when managed appropriately, or, conversely, can turn into a nightmare.

Two stories illustrate this manner of using credit; in both cases, expectations of consumption, well-being and wealth accumulation expand in a context of upward mobility, for which credit becomes a legitimate means of acquisition.

Moving to one´s home 1: when things go right

Diego and Karen, a forty-year-old couple with two children has been very systematic in planning and investing in their life trajectories. Two main projects have shaped the last twenty years of their lives: moving to and improving their home, as well as increasingly formalizing their education. This has been possible because of the economic stability they enjoyed over time, which facilitated an important level of control over their own lives. Their credit story is bounded to this situation and projects, where consumer credit is being systematically mobilized as a means for building the family biography. Trajectories of indebtedness evolve accordingly, where mixed forms of credits are used and progressively incorporated into the modus operandi of the family. In this case, debts undertaken for an extended period to accelerate the project of improving their home end up normalizing the payment of credit installments. After a while, families incorporate the payment of installments as a fixed expenditure and consumer credit is considered as a sort of “virtual savings” that could be mobilized to constantly expand their consumption. So far this money constantly circulates, it is not considered a debt. This could be regarded a mechanism of normalization of debts that neutralizes its asymmetrical character. Credit under these circumstances allows families to sustain desired lifestyles without threatening their economic status.

Diego and Karen live in a 120 square meter house in La Granja, a mixed -residential and industrial- urban area in Santiago de Chile. Diego studied in a technical high school and later on studied engineering some years later. By the time this interview was conducted, Diego had a stable job working as maintenance supervisor in a construction company. Karen, on the other hand, also studied in a technical school and specialized as a “drugstore assistant”. She worked in clinics, department stores and by the time of the interview had a stable job in a drugstore. In parallel, she was taking classes in a technical school as a “nurse assistant” during Saturdays that lasted two years and cost around USD 100 each month. This would allow her to have a better work status in her current job and be paid accordingly, a strategy that Diego already deployed when decided to study engineering. In total, their monthly income amounted to USD 3000. Their two children attend a subsidized private school that costs in total USD 100 a month and they all have a “family plan” with a private health insurance company.

Before buying their current home, they lived with Diego´s parents. By then, it was not possible to apply for a mortgage since Diego did not have a stable income, so they saved enough money to buy a house with the help of the government housing subsidy of approximately USD 7000 and a 4000 loan from the former owner that they paid in one year (installments of approximately USD 300). The home they found was a 400 square meter plot with a 120 square meter house that “required some repairs”. Once in their new home in the late nineties, they used savings, bank loans and department stores credit cards to progressively make some improvements in the house. Karen took the first bank consumer loans, because Diego did not have a stable work at that time. The first three credits they obtained were between USD 3000 and 4000. Taking more than one credit was not in their initial plans, but once these repairs were underway new expenditures were just “unavoidable”. In Diego´s words: “We started doing things; we were finishing the “structure” and we had to take care of all the details, pay the workers, replace the windows, and that´s how necessities arise when you are in a situation where you want to move forward but you lack the money.” That is why Diego also used the department store credit card (which he had in his wallet for at least twelve years) to buy some construction materials and finish the windows. For Diego, no matter how much you calculate or “tiras el lápiz” (a common expression used to calculate costs or future expenses) when building, because there are always costs that you cannot foresee.

At the beginning, when they run out of money they just stop working, save some money, and keep building the house afterwards. But they decided to accelerate the process, although they never took more than one credit at a time. What helped them take further loans with the bank was that Diego got a new job (his current job), which although did not report a bigger salary at the beginning, provided him with the opportunity to build a career and project himself as an engineer within the company he still works for. Indeed, after a few years, he managed to change his position within the company from a skilled manual worker (machinery diagnosis) to a supervisor in the diagnostic area.

Throughout this time, the life of Diego and Karen´s family improved. According to Diego, there has been a “natural” change in their consumption patterns, “the expenditures have been increasing over time…because there are other tastes in life, your life changes”. As with all their finances, these new expenditures have been mostly subjected to some planning. This is also the time of using the department store credit cards in a systematic fashion. After all the time repairing and improving their home, they got used to pay installments as if it were a normal expenditure. Not having to pay those debts any more improved their discretionary income, though they kept using credits to buy more things in installments rather than with cash money. Once their house was finished, using smaller credits to finance smaller purchases at supermarkets or department stores became a normal affair. Besides the two “Falabella” credit cards that they use more often, he has a “Paris” credit card that he uses to buy smaller items like clothing and footwear, which are normally paid in 6 installments (up to USD 25). Considering that credits were systematically denied to them in the past, being able to make use of all these credits represents a source of pride for Diego, confirming the role of credit ratings as a proof of credibility and a source of recognition (Fourcade/Healy 2013; Logeman 2012): “I experienced both sides of the coin, when you have a job the bank does not take you into consideration at all, even if you are a responsible person…", but now banks recognize him as a trustworthy person and lend him money.

At the moment of the interview, consumer credit for Diego was a resource that should be constantly put to work -spent, however with some precaution. Diego was always careful about not buying two durable and expensive goods at the same time in department stores. As a general rule, small articles such as a shirt, a jacket or a pullover, could be bought while a durable good is being paid. That is how he bought a refrigerator first, then a computer and later on a TV. So far, this rule is respected, and they have learnt how to live with debts and paying manageable amounts of consumer debts has being part of their daily life. This is an interesting mechanism of normalization of debts.

In so far they have used consumer credits since they arrived at their current home, paying installments is now a normal affair included in their monthly expenditures. That is why every time debts have been paid and the balance is in zero, the available credit is considered as a sort of virtual "savings", an available amount of money that should be once again mobilized. As Diego puts it "…I bought a refrigerator, then a notebook and then a TV. I finish (paying) this one and I buy another one, and so on. If I see the account a bit empty, I go and get excited about something, I buy it and make calculations in order to not become indebted ("encalillarme"). As one can see, an "empty" account is a balance without debts - or quite to the contrary, "full" of available resources ready to be spent at any moment. As such, being able to constantly expand their consumption with their department store credit cards became the rule.

The account is "empty" of debts, because for Diego becoming indebted does not mean taking credit, but a fictional future state where debts are not manageable. In this sense, using credit-money is only a different way of using their resources, but not of creating debts. This goes in line with a general understanding of debts among the middle-class interviewees, where rather than owing money to someone, being in debt is a matter of financial distress, just as debts actually exist when you cannot pay them. "I can tell that I have no debts in comparison with the "common denominator" (other people), I live in peace, because if I want, I can pay everything in two or three months".

That´s how it works sometimes when Karen and Diego go shopping; if there is no available amount left on the credit card, Diego pays part of the debt in order to have a new credit card balance to make new purchases. Paying the balance in this case does not mean paying a debt, but it is more similar to filling one´s car with gasoline to keep it running. This is something that Karen wouldn´t do, because she is more afraid of taking too much debt. So if she wants to buy something with the credit card when there is no available money in the credit card, Diego has to go with her, make a payment and thud have a new credit card balance. After all, he manages the finances and is in charge of paying their credit cards; he is the one who knows, indeed. The accounting system that Diego uses is simple; most of the time, he relies on "his head". He uses his bank account to administer and pay himself the fixed costs, the electricity, water, telephone and Internet bills. Although he does not have the exact numbers in his head, he is constantly monitoring his account and the credit card balance, so their budget is monthly updated and reassessed. Despite the normalization of credit and debt in Diego and Karen´s household, credit is not a burden that prevents them from saving some money. This is Karen´s task, who puts money on a different account in order to have a safety net.

For Diego, what turns a "credit" into a "debt" is a fuzzy line. In general terms, a credit should remain within the margins of USD 1200 and 1600. Normally, the monthly charge that Diego can afford ranges from USD 200 to 350, depending on how his other debts overlap. Only once they had a monthly bill of USD 1600 for around three months, because the bank credits used in the construction of the house were issued in different time spans of installments, so at some point they overlapped. In those cases, normally two or three months where debts are higher due to overlaps, there is no credit money available and Diego deploys self-control strategies: "when you reach that peak of "cuotas" (installments), I don´t spend, I don't even show up in Sodimac (the construction retailer) or Falabella, and anywhere…because temptation is right out there, and when you have access to credit without anybody evaluating your financial situation nor asking for your rent…the credit card is there ready to be used…".

Contrary to what one might think, what may be problematic following this logic is to have available balance, a credit card "free of debts". As Diego says, "Sometimes I have the (credit) cards in zero, and that´s when it is dangerous because you go and you buy what you like". An available credit card is more dangerous than having it with a fixed amount of debt. The notions of "opportunity" and "temptations" associated with the shopping mall and the department stores gain salience. As it is the case for most of the interviewees, a visit to the shopping mall to buy clothes for their kids ends up in an unexpected way.

Moving to one´s home 2: when things go wrong

In her mid-forties, Monica is divorced, lives with her three children and has a stable job as a secretary at a private University, where she has been working since she finished her technical career twenty years ago. Her monthly income consists of a stable salary she has received throughout the years that reaches around USD 1000, plus USD 2000 that her ex-husband gives her to pay the private school of their three children (altogether equivalent to Mónica´s salary) and to cover other expenses.

By the time this interview was conducted, Mónica was paying a monthly rent of USD 500 for the house she has been living since the bank repossessed her former house, and paying a USD 8000 installment loan that the bank has been withdrawing from her salary for the last five years. The debt was the result of an intricate life-story that includes a marriage breakdown, foreclosure and a "fresh start". To a great extent, Mónica´s credit-story is a variant of the "dream home" that characterized the previous story, though with a different denouement.

In this case upward mobility that comes up from a better work contract fosters positive expectations that result in a riskier attitude towards debts. On the one hand, social mobility reaches its maximum symbolic and material expression in the home-ownership project, where different forms of consumer credit are deployed as a legitimate means for improving one´s home according to expected standards. On the other hand, available consumer credits open new courses of actions, ending up catalyzing and accelerating existing aspirations and expectations. This is a dangerous self-reinforcing dynamics that might well turn into financial collapse.

As with many consumers, Mónica´s first credit was not planned. It was offered to her in the street when she was passing by a "financiera", former specialized financial institutions that after the financial crisis in the first half of the eighties were bought by banks. The "captadora" -a name given in the financial industry to saleswomen that offer instant approval credit cards- offered her a loan that reached USD 400 and could be immediately issued only with her national ID card. Mónica was surprised because by then she did not believe she was "credit worth", and the idea of buying some clothes and "darse gustos" was tempting. Using credits, however, was not nothing new for Mónica, since her parents used to "sacar" or buy clothes and electronics at the department stores. According to Mónica, they never had trouble with those credits because being poorer made them very efficient with their finances; besides, the taking care of one´s debts was important to be able to keep buying articles on credit.

That credit was paid without trouble within a year. But Mónica´s most intense and systematic story with consumer credits started at the time she and her now ex-husband were living at the department that he inherited from his father in downtown Santiago and their first child was about to be born. Since then, consumer loans with banks and department stores credit cards were systematically used to equip their home in the way they considered appropriate to the changes in the family composition and in the ascendant career of her husband as an informatics engineer. According to her, throughout this period – around four years they lived in the apartment- they felt their income was not enough to meet the increasing necessities that the family project entailed. In this spirit, they bought their first car with a bank consumer loan, which was meant to make their lives easier once their child was born and "go out as a family". Due to the overlaps and the complexity of their financial situation in the subsequent period, Mónica is not able to recall the exact amount of those loans, but they usually lasted one year and reached USD 3000. The important step they took in the same direction was to sell the apartment and move now to a 600 square meter house in Ñuñoa, an upper middle-class residential neighborhood in Santiago. The decision was driven by the fact that they were planning to have more children, so a bigger house was required, which finally they were able to buy due to an ascendant career now yielding around a USD 4000 monthly income..

Expenditures arose accordingly, a mechanism known in consumption studies as the "Diderot effect", where a new acquisition changes the standards against which one´s possessions are evaluated

(Shove 2001). In this case, not only did the neighborhood set higher standards, but also the size of the home required different and new appliances to fit the new place “a new living room, a new dining table, everything”. It was a time of excitement and positive expectations “…the house was bigger and we needed bigger furniture, besides the fact that my husband had a high position, so he was able to, I assume he was able to…”

Department store credit cards as well as consumer loans with banks were the perfect means for equipping the house in the “proper” and desired way. Throughout this time -around 6 years- where their two other kids were born, the three department store credit cards she had were systematically used to buy electronics, new TV sets as well as kitchen appliances, while Mónica´s husband indulged himself with his passion for motorbikes and cars. One car and two jeeps were bought with consumer loans in this period. According to Mónica, seen in retrospect it was a time of “consumerism”. Although many purchases were a source of dispute, Mónica finally yielded to what she now says were her “husband´s impulses”. As she recalls, one of the motorbikes “just appeared one day in the backyard”.

The change of reference groups seems to have played an important role in this story. In retrospect, she argues that her (now ex) husband´s professional career changed him from being a very simple and humble man to someone that was too exposed to a life that they could not afford.

Me: *why would you say that he changed?*

Mónica: *The work place, his peers, all his people…when we invited people to dinner at home I had to “look dapper” (“de punta en blanco”), because the managers were coming. So his world was…it changes people when they see each other.*

However, this is something that Mónica could see with some distance. In the end, she says, it was also comfortable to enjoy all those goods and she was also confident about their financial situation; after all, by then she knew that her husband was making good money in the company and had “side business” as a consultant.

But over time Mónica´s prediction proved untrue. Soon the rising expenditures became an unbearable burden. Both their mortgage loan and children´s private school fee reached USD 2000, while debts started to overlap and turn out to be unmanageable. Department stores credit cards and overdraft lines were systematically used to pay for the installments and, later on, to help with the mortgage. As it was seen in the previous chapter, using a second debt to pay other debts seems to be a characteristic practice among middle and middle-upper socioeconomic groups –rather than poorer consumers, a dangerous practice known in Chile as “bicicletear deudas” and in the financial industry as “shuffling” debts. It took time for Mónica to realize what the real situation was, basically because she used to give most of her income to her husband in order to pay for the groceries and the domestic services that they “had always paid for”. In this case, the division of labor in the household played against her.

She realized that the situation was going out of control the day she arrived at home and policemen were standing outside and asking for her husband because one of the cars was meant to be repossessed by one of the banks. The problem was circumvented thanks to Mónica´s father, who gave them the money they needed to pay for that particular debt, approximately USD 7000 that were never paid back. But it was only a temporary solution; in the coming years, it would not be possible to save the cars nor their house. Nowadays Mónica argues that she was too relaxed and confident about both their financial situation and her husband´s abilities to handle those debts, something that she would pay for some time later at a high economic and emotional cost.

The financial collapse came soon and it worsened with the collapse of their marriage. It is a well-known fact that marital and financial problems usually go together. As scholars have shown for the case of the US (Sullivan 2000; Warren 2003), divorce is one of the main causes of financial distress and bankruptcy (and causation in the other direction is of course very common), but the difference is that in Chile there is nothing such as a "bankruptcy law" protecting consumers from complete collapse. So the crisis of trust came from both sides. Not only did Mónica undergo an infidelity, but she also realized that her husband was using one of her bank accounts to take more consumer loans. Indeed, Mónica had an unusual access to banks´ financial services for her USD 1000 income. The first bank account (with BBVA) was accessed through an agreement with her employer and worked as a payroll deduction. The second, however, was a bank account she opened at "Banco Santander" through her sister in law –a "captadora" that received a fee for engaging an extra customer- with whom her husband was associated and could use at any time. That overdraft line was being automatically withdrawn to pay for the installments, until it run out of room and Mónica received a warning from the bank that nobody was actually paying the consumer loan (the one her husband took to pay other debts). Now the collapse was total and evident for Mónica, who had to renegotiate the payment of two consumer loans and the collapsed overdraft lines with her two banks. By the time of the interview, five years after her marriage breakdown, she was still paying USD 8000 debt through a small payroll deduction.

Juggling was not enough to keep debts under control, which were generated through four bank consumer loans, three department store credit cards and a mortgage. First the car, and then two jeeps were repossessed. The final collapse, however, came once Mónica´s husband left home and their mortgage debt accumulated for seven months peaking around USD 60,000. It was a very hard time dealing with an important emotional burden. The already painful marriage breakdown was accompanied by downward mobility since Mónica´s income was not enough to keep their previous expenditure levels and her ex-husband was still too over indebted to help her. As the following quotation suggests, losing their house represented an important step backwards regarding the lifestyle that Mónica and her children enjoyed during the last five years, as well as her expectations of wealth accumulation. "…I was so used to my beautiful house, it was also an asset for our children; I think as a mom that it is something that your children will inherit, because you will leave, and then the kids will divide it anyways". Out of necessity, almost everything was progressively sold, from plants to the garden fence –which they bought with credit. In any case, although she could have tried to "save the home", to some extent Mónica wanted to get rid of everything that was somehow related to her marriage. The house was finally repossessed by the bank after a few months and served to pay almost all their debts, while Mónica moved with the children to a smaller house in the same neighborhood.

Nowadays, Mónica has been renting the house close to her parents by almost five years. With her salary and the almost USD 2000 she receives from her ex-husband she managed to reach stability and had a "fresh start" in her life. Despite the sharp drop and change in lifestyle that followed the turning points of the marriage breakdown and financial collapse, Mónica and her now ex-husband managed to keep the children in the same school and maintain changes in their consumption habits and routines to a minimum. This was possible because Mónicas ex-husband kept supporting them economically, but also because one of the major assets Mónica could rely on in order to "protect" their lifestyles and, to some extent, prevent them from "losing status", has been her family support. In the absence of a housemaid, for instance, her parents could help her taking care of the nine year old child, while her parent´s small house at the beach served as the pre-defined vacation destination during the summer. Furthermore, Mónica received some help from her brother -a forty year old single engineer who had a much more solid economic situation- who sold her his car in installments that Mónica could comfortably afford.

The meaning of debts changed in this whole process, although they were still a useful resource for Mónica. Although "formal debts" were no longer a resource that Mónica would put at work in order to rebuild her life again, she used her Falabella credit card for a while in order to please her children sometimes, which she finally closed in order to prevent her from any temptation. It was not about condemning debts from what happened, but rather a self-control strategy that would prevent her from consumerism "I just closed them (the credit cards); it is too tempting (…) because women buy anything; you try something, you buy it, and you end up bringing with you 2, 3 or 4 things in 3, 4 or 5 installments". Credits would no longer serve to expand their consumption in a lavish way, but help her buy what was considered necessary, such as buying a car or replacing the washing machine.

According to Mónica, she finally brought order to her finances and now has a much more relaxed life, although with less discretion over her income; what once was regarded as a normal standard of consumption is now considered as "luxuries from the past", such as eating in restaurants every week or go skiing during the winter. Now she goes to the shopping mall only once a month and with clear expenditure targets that she distributes among her children, or plans restaurant dinners in advance. She now afford things ("darse gustos") only with cash money, while debts were now restricted to specific uses, such as a mortgage that she is actually planning to take next year in order to finally fulfill her expectations of homeownership, and to invest in her children´s education by paying a language course. After all, credit in

Chile is a “necessary evil” because “nowadays both the middle as well as the lowest classes (…) need credits.”

Lessons from Credit-Stories

Summing up, I depicted three stories that show how middle class families embrace consumer credit into their everyday life, particularly at the life-cycle transition of moving to one´s home. Characterizing this milestone is crucial because, as I showed in the previous chapters, expansive homeownership seems to be one of the main forces driving the financialization of consumption in Chile. The key finding in this regard, is that people consistently use consumer credits to buy home appliances rather than to protect their lifestyles, deploy wealth or show-off.

In general, consumers have a relatively clear idea of the things they are entitled to have, and buy with credit things they consider as “necessary”. In this way, in line with the “status anxiety” hypothesis, interviews indicated that things people claim to “need” are mobilized to gain independence from relatives and materialize the family project. This was the case of people moving out of the house of their relatives, acquiring new goods on credit, and replacing “old stuff” according to their own preferences, which also demarcates distance with social origins. In this sense, acquiring, decorating and improving home becomes a subtle process through which people materialize the standards of living they desire, as well as perform their desired class identities (the *imaginary middle class*) in the domestic sphere. In this way, the utilization of credit is bound to processes of improvement (becoming homeowner), even when these are not facilitated by better wages. This supports the idea that the financialization of consumption is being driven by the rising standards of living fostered by expanding homeownership.

Moreover, for middle-class consumers, credit in many cases allows people to enhance those things they already have (“branded” products, such as a “good” tennis racket and “better” clothing), rather than accessing new goods. This means that, in many cases, –especially for those that have enjoyed better wages- more demanding consumption standards are manifested in the search for “quality” rather than mere acquisition. The immediate association of credit with “branded” goods suggests that buying with credit is not only about having access to consumer goods but also about being able to buy the “right” goods.

In this sense, this first qualitative approximation to the indebtedness of middle class families also showed that, contrary to what is commonly believed, the constant expansion of consumption actually implies that people consume more and standards of living become more demanding, but not all this consumption is necessarily oriented towards signaling status. In line with consumption studies, these stories also showed that lifestyles are “ratcheted upward” through the incorporation of “ordinary” goods into the standards of living (Warde 2011). Following the insights of life-course studies I went beyond the traditional lifecycle hypothesis of economists to show that there is a normative understanding of life-transitions that shapes financial practices. At this point, it is important to notice that the picture that emerges from these credit-stories and financial practices is that the rising indebtedness of Chilean households cannot be subsumed under a dominant logic, whether “conspicuous” or “defensive” consumption, basically because there are more subtle mechanisms through which people financialize their consumption in contexts of improvement. Among these, I reviewed the importance of changes in reference groups, rising aspirations over time, Diderot effect, the management of care relations and people´s *relational work*; expectations of wealth accumulation and material improvements, as well as normative conceptions over the life cycle.

In the following section, I describe in more detail some of the financial practices identified in these credit-stories, which are hard to characterize with aggregated data. These provide interesting clues about the particular ways Chilean families mobilize their financial resources, as well as incorporate consumer debts into their everyday life practices. With this, we get a better sense of how credit becomes part of the “repertoire” of available practices that shape the culture of Chilean consumers (Swidler 2014; Swidler 1986).

9.3 Taking Credit by Chance

For most people in Chile, credit is encountered for the first time at the market place. As argued in chapter 5, lenders in Chile have been very successful in “marketizing” credit by encountering consumers at sales points or public spaces and engaging them in credit relations. Although several techniques for the “captation of publics” are deployed –to borrow the concept from Cochoy (2007)- they all have in common that credits seem to intercept consumers´ trajectories and prompt them to acquire debt, either from banks, department stores or compensation funds.

Different *market encounters* and organizational arrangements and *devices* come into play at the market place in order to *attach* consumers to their credit cards (for a review of literature on *market attachment* see McFall (2009) Muniesa/Millo/Callon (2007)). María, for example, a retired widow received a phone call from her compensation fund offering her a $400 loan that she could immediately receive in cash and repay through monthly installments discounted from her pension. Although she never received a loan before and she defines herself as a “person of cash”, she was just tempted by how easy they made it for her without having to pay attention to the form of payment. As she recalls, “I said “it´s not a big deal”. I will sincerely tell you that sometimes I do not remember, and I do not even look if it is a huge withdrawal [automatic debit]…it will suddenly stop and it will be over”

In this respect, department stores have important advantages over banks and other lenders such as compensation funds. Their credit cards are offered within the department stores and shopping malls that are open to the public during longer periods (usually from 11 am to 9 pm and also during weekends) (Montero/Tarjizán 2010), where an important share of Chilean families spend their free time doing some shopping, eating out or watching a movie. Accordingly, the most common technique utilized by department stores for engaging people in credit relations is by directly intercepting them in public spaces, a technique known in the financial industry as "recruitment" (*captación*). The following quote from Mercedes, a housewife in her late forties, illustrates how this simple technique capitalizes on consumers´ impulsivity, which in some cases will be complemented with the feeling that owing a credit card is a source of recognition.

Mercedes: [the credit card] was offered by a saleswoman that is outside [the department store]…and I said "ok". I really did not want it, but I thought that it could be useful to buy some stuff, so then I bought clothes for my daughters, I remember".

To understand how this is possible, we have to look into the consolidation of a particular figure in the industry called the "scavenging". The credit "hunter" is usually a woman of variable age that stands at the front of the department store (in the mall or simply in the street, depending on where it is located) whose task is to "jump" (*saltar*) onto consumers making shopping or just walking along the streets to offer them a credit card with an instant approval for making purchases in the store and associated commerce. As the chief of customer service of one of the biggest retail chains in Chile states, there are two types of "recruitment" within this industry: the normal and the express. While the "normal consumer" is the one approached by "the hunter" and it´s usually seduced by the possibility of doing instant purchases at the department store, the "express" consumer is the one that is already buying in the department store and payment discounts and/or gifts are offered if he/she uses a credit card. The goal of this technique is to issue more credit cards, as well as connecting the information of the purchase with a person.

This way of entangling consumers introduces an important distinction between installment loans and department stores credit cards, which is that the moment of acquiring the credit card is different from its usage. Once a "bank loan" has been accepted, for example, the money has to be spent (as a matter of fact, nobody applies for a credit to put it in a savings account); but once you received your department store, you could potentially go on with the credit for an indefinite time. There are several ways through which the "potential credit" in the wallet is converted into "actual income" and debts that ultimately benefit the department store, but in most of them lenders seek to exploit some sense "opportunity".

A common way to exploit the "cash shortage" problem is by enhancing the *complementarity* between credit card issuers and commerce willing to accept them (Guseva 2007). Chilean department stores solved this coordination problem by creating a network beyond the within-store purchases to an increasing number of associated stores in the late 1990s, where their credit cards would be accepted at a low fee. The Falabella credit card that Waldo had, for instance, was offered to him while he was passing through one of the home improvement stores owned by the department store only with his ID. He accepted the credit card though he did not need it at the time, and after ten minutes the card was in his wallet. According to Waldo, that card was fortuitously put to use some months after, when he was at the gasoline station but realized that he did not have enough cash money to buy gasoline for the truck and decided to use his card. He later regretted this decision due to a mismanagement of his revolving debt.

Another effective way of *attaching* credit cards to consumers and engaging them in credit relations is through the "irresistible offer" marketized at the sales point, what in the industry is better known as a the creation of "express" consumers. In this case, the price offered to consumers with the credit card is considerably cheaper than the same article bought on cash, even after high interest rates are discounted. This is an organizational advantage that department stores have over banks (see picture below). One way, for example, would be to turn potential credit into actual debts. In the case of Verónica and her husband, who were doing shopping and wanted to buy a new suit when they realized that one of them was offered at a discount price with the credit card. They had a Cencosud credit card for many years that expired due to account inactivity, but they renewed it in order to buy the suit in installments and to take advantage of the special price. In this sense the advertisements of department stores not only seek to make those products on sale appealing, but they increasingly emphasize the payment plans and the benefits of credit-lines through loyalty programs and attractive offers for credit card holders.

Figure 49: *Market Encounters* at the Department Store Work as *Market Attachment* Devices

	Price	Goal
Normal price	199.990	selling goods
Paying with Card	179.990	Captation - selling goods
Credit 15 installments of 14.773	221.595	Captation - creation of debt - selling goods

But these marketing devices are not only useful when people are buying goods, but in Cochoy´s terms very effective in *deviating* the *trajectories* of consumers. María Angélica, for example, went to a home improvement store to buy materials to repair the garden when she saw a hair dryer that was on sale for USD 25. Nevertheless, when she complained at the sales register that she was being charged around USD 40, the sales agent informed her that the discount only applies to credit card holders. Since the approval of credit is almost immediate, María Angélica agreed to open a Falabella credit card account. Like many consumers in Chile, she went to the store to buy gardening materials and she went home with a hairdryer, a department store credit card and a debt.

It is important to mention that there are also important organizational factors that make these *market attachment* techniques crucial, which are not related to the arrangement of *market encounters* but to the organization of work relations.[121] The expansion of department stores throughout the national territory has widened their scope, but the marginal profits made by each new department store are not necessarily compensated at the general level because it creates competition among department stores of the same companies. This means that now a worker that goes shopping after her work near to the city center now does it during the weekends at the new shopping mall in the suburbs, putting more pressure to reduce the costs of an expanding working force. Some companies, such as Ripley, have taken action and increased the base-wage to the legal minimum, but such increase has been subtly compensated by a decrease in commissions (according to the industry, an aggressive price competition that has diminished prices around 30% in ten years ended up pushing wages downwards). This has affected the credit business by pushing salespersons to compensate lower prices -and accordingly decreasing commissions- by selling products from other areas or what are called "intangibles", such as warranties, insurances or purchases made on credit, which report higher fees than normal sales. According to a report from CIPER, workers in the industry assure that this is one of the most important changes in the internal organization of work, to the extent that they receive constant pressure to sell intangibles and compete among them. Indeed, every salesperson´s records are revealed within the department store, so they directly engage in a competition

[121] In this regard, department stores reflect the dilemma of the Chilean growth model. On the one hand, they have been one of the most important economic forces driving growth in Chile, which although face a fierce competition among them, have managed to enjoy huge profits and expand within and beyond the national territory. On the other hand, their own workers have not enjoyed such expansion and their working conditions have systematically worsened over the years. While in the mid-eighties being a department store seller was compensated almost as a median income professional, the expansion of the business to massive markets changed this situation. Nowadays, work contracts have more flexible conditions and wages have not experienced significant improvements. The surprisingly small number of labor conflicts in the sector has been facilitated by the Chilean labor legislation, which allows companies to divide their areas and operate under different legal entities that fragment unions by preventing workers from organizing as a sectorial union.[121]This is important to understand why so many consumers are *attached* to their credit cards in the department store, although this is not so obvious.

for selling these services.[122] Thus for example, the salary of a *captadora* that offers credit cards at the department store is basically based on these commissions, which puts them in a situation where they have to engage people in credit relations at any cost.

Figure 50: Saleswomen Wait at the Entrance of the Department Store and "Jump" onto Consumers.

Incentives	
Normal client	1 point
Express client	1/2 point

4-5 normal day
8-10 good day

Under 60	$ 2
Over 60	$ 6

Under these organizational arrangements, the *captadora* has clear incentives to engage people in credit relations. A system of "Points" is implemented by the department stores, where she would get 1 point for a "normal client" and ½ for every "express client" she attaches to a credit card. Below 60 point the *captadora* receives USD 2 for each client, and over 60 gets USD 6. As "captadoras" argue, in a normal day they would "capture" 4 to 5 clients, while in a good one –usually during christmass or around another holiday- they engage 8 to 10 customers a day.

9.4 Buying Gifts with Credit

As it could be seen in the previous section, a systematic way of using credit cards is to purchase gifts, closely related to the common practice of *sacar cosas* in department stores, which range from clothes and small toys to electronics and furniture. This is a very common way of mobilizing department store credit cards, to the extent that some people *earmark* these credits exclusively for this purpose

[122] This has been the successful formula put at work by department stores, which also allowed them to maneuver against regulations that aimed at increasing wages. In 2007, for example, the congress passed a bill that established that fixed wages before commissions should at least equal the minimum wage, whose effects on labor costs were counteracted by simply cutting the share of variable fees.

(Zelizer 2002; Carruthers 2010). The practice of buying gifts with credit is relevant because it indicates that credit has become an important means for Chilean families to participate in rituals, manage social commitments and regulate interpersonal relations. Regardless of the particular reasons, in some cases a department store credit eases the burden of unplanned expenses, while in others it serves as a 'gift enhancer', which might ultimately change the very nature of the social ritual by ratcheting up the consumption standards and expectations of coming events.

Credit is a useful tool for dealing with social obligations because commitments and occasions not only shape the context of exchanges, but also the 'time of consumption' (Douglas 1982; Douglas/Isherwood 1979). In fact, many purchases are made for special occasions that are usually not calculated in the monthly family budget, such as weddings, graduations or birthdays, because they do not represent regular expenditures throughout the year. Nevertheless, buying appropriate gifts is very important for Chilean families, and consumer credit in many circumstances helps people catch up with the timing of social obligations that these purchases entail. Just as life-transitions demand major investments and expenditures throughout the lifecycle, social obligations demand a commitment to consuming according to specific dates, regardless of someone's financial capacity. In this sense, if people use credit to catch up with existing social obligations (Mauss 2005), the practice of making gifts with credit also connects the circuits of formal and economic debts with social obligations. Five main occasions are usually met and even changed by means of credit, each of them with their own logic: birthdays, weddings and holidays, as well as gifts for loved ones and for oneself.

Olga, for example, works as a secretary in a lawyer's office, has well-organized finances and three credit cards: a Visa card with her bank and two department store credit cards. Although she uses her Visa card and pays off her full balance at the end of the month, she uses her department store credit cards exclusively for acquiring gifts when birthdays or weddings are approaching. Olga does not account for these expenditures in her normal budget, and she is unable to save for these additional purchases. In her words, 'For example my sister´s birthday is on March 15th and by the 15th you don´t have the money…you already paid everything you had to pay by the 10th, and there are still around ten days left before you get your salary: the answer is credit cards, of course'. And she continues, '…my birthday is on the 20th and my husband, I am sure, he buys [my gift] with the credit card.'

Using credit cards for purchasing gifts also exploits opportunities presented at sales point. Paulina, for example, used to travel throughout South America while she was working in a NGO, and she would systematically use her bank credit card to buy gifts at the airport´s duty free area, even when her financial situation was not in good shape. Buying gifts with credit is not really spontaneous, but planned in advance. Tato, on the other hand, who says that she enjoys giving gifts, is actively aware of coming occasions when gifts should be given. She is very attentive and takes advantage of special offers, using her department store card to buy gifts that she would then store: 'I have a friend that will be sixty at the end of the month, but I realized that there were offers for Father´s Day, so I went and bought a gift. I watch out for offers; there are always gifts to be given, and I always have some gifts stored waiting for the occasion'. She continues 'I know that Aylen´s [her fourteen year-old daughter] friends are all 14 or 15 years old, so if I see a pullover that costs five that used to cost seven, I buy it. Because I know someone´s birthday will come in two months…'

In a different vein, for some people department stores credit cards not only also work as a means for buying gifts but as a 'gift enhancer'. Mercedes, for example, a fifty year-old housewife, uses her La Polar credit card to buy stuff to please her daughters or nephews.

Me: Do you use this [department store] credit card often?

Mercedes: No, only for certain things. A gift for my nephew, I only use it for making gifts, something small, a USD 20 installment purchase, always in three installments, no more. […] then I take advantage to buy something more fancy [encachadito], not so common, not so simple…

By the same token, Fabiola and Alberto, a couple in their forties with two kids, systematically bought Christmas and birthday gifts on credit for several years. They explained how they took credit because they have too many relatives, especially Fabiola´s nephews, cousins, uncles and parents. But most importantly, because she wanted them to be 'good gifts', which meant buying brand products they could afford by paying in installments. Negotiating the amount and qualities of gifts was a source of tension every year, until they stopped buying gifts on credit because they got into financial trouble. Alberto closed his department store account, while Fabiola started participating at the church, where her peers morally condemned such practices. Nowadays, they decided to make 'good gifts' (on credit) only to their nephews and on very particular occasions such as graduation from school.

But credit not only serves as a useful resource to deal with social commitments among personal networks. On other dates, such as Christmas, the beginning of school season or Chile´s National Day, are holidays contemplated on the social calendar where Chilean families feel forced to spend considerably more than the rest of the year. As expected, Christmas is the time in the year when Chilean families use department store's credit cards with more frequency than any other time. Indeed, consideraing that Chilean families spend between 20 and 30% more in December, in 2013 the Ministry of Social Development launched a campaign called 'You don´t make it' (Usted no lo haga) to prevent people from buying on credit and taking excessive debts.

Unlike social commitments, such as birthdays (which might not be celebrated), Christmas is an annual fixed and predictable date, which shows how scarcely Chilean families are able or willing to save for anticipated celebrations. To some extent, the structure of the calendar might play an important role, since Christmas is close to summer vacation –starting in January- for which Chilean families allocate an important share of their savings. Karen, for example, uses department store credit cards to buy herself clothes, to purchase gifts for relatives and to buy home appliances for her parents. As she clarifies: 'For example for Christmas I buy gifts. I buy everybody a gift and some of them I 'take out' [buy on credit at the department store]. Something like that, but they were not big things…' Interestingly, Karen is very organized with her finances and manages to save small amounts of money on a regular basis to finance her summer vacation in January, or to keep it as a safety net in case of an emergency. This shows that using credit for buying gifts is not necessarily related to lavish consumption, lack of savings culture or financial disorganization, but rather that gifts are considered as 'small', 'harmless' or 'contingent' expenditures.

Last but not least, another way of buying gifts with credit relates to *darse gustos* or something like 'to indulge oneself', a common expression that is used in Chile to refer to those unplanned 'pleasures' that people give to themselves. Although it might be understood as a sort of self-gratification, the notion of *darse gustos* is connected with both a sense of economic independence and a lack of material constraints.

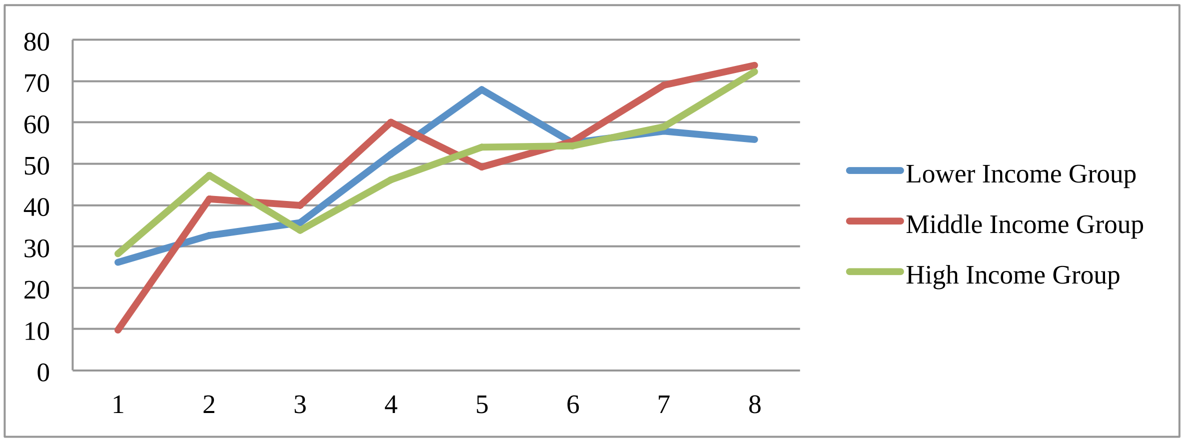
Diego, as we saw, managed to change his position within his company from a skilled manual worker to a supervisor in the diagnostic area. This promotion improved the lifestyle of Diego and Karen´s family, and, according to Diego, there has been a 'natural' change in their consumption patterns: 'expenditures have been increasing over time…because there are other tastes in life, your life changes'. Diego classifies most of these new expenditures as *darse gustos*. In his words, *darse gustos* means 'Do you want to eat something? Let´s go and eat something; do you want to buy something? Let's go and buy it. But nothing disordered nor distorted [meaning nothing out of control], that I want to buy whatever I desire, but rather something that we could afford to. It involves some sense of freedom and the monthly installments of department stores credit cards essentially widen the range of things that 'we could buy'. This is why the economic independence implicit in *darse gustos* is nowhere better represented than in the practice of shopping. In this context, *darse gustos* means walking around the shopping mall without any particular purpose and spending (credit) money on something unusual or simply unplanned, such as a haircut, shoes, or a restaurant meal.

As a housewife, for instance, Mercedes gets money from her husband every week to buy groceries, but with her credit card she is able to set aside some money to pay small installments and buy herself (and her daughters) some articles in the department store -mainly clothing- without having to ask her husband for extra money. This mode of utilization also conceals an underlying but crucial role of credit, which is that it also works as a means of reaching independence for housewives. In fact, gender relations are crucial to understand how middle-income Chilean families use department store credit cards. The distribution of income among couples in Chile shows that in 50% of cases men are the only provider, while only a 36% both provide income. Only in 16% of cases women are the main providers (PNUD 2010), which means that most women in Chile rely on their husbands to carry their purchases. This was already depicted in the three credit-stories depicted before, where husbands have a total control over the household resources. What Mercedes´ credit story depicts is that housewives, who became one of the main targets of department stores, use credit cards as a way to reach some independence from male domination regarding the allocation of resources. In this sense credit seems to work as a vehicle of individualization.

9.5 Social Relations and the "Time of Debts"

In general terms, the practice of making gifts with credit shows the importance of the calendar in structuring the "time of finances". On the one hand, there seems to be what one can call a "life-world time" structured by the local and specific social relations within which a particular individual is *embedded*. Social commitments such as weddings, birthdays or other ceremonies, for example, are directly related to the specific ties of an individual or a family, which can simply not be transferred to others. These entail, in many cases, important financial efforts, and people seek to honor their social commitments and care relations by making gifts on time and, in many cases, enhancing them. In this sense, people might want to show-off their purchasing power in the search for rank among their loved ones, but the evidence shows that care relations and social commitments –relational work- are crucial priorities for many families. This goes in line with the "consumer profiles" I depicted in the previous chapter, according to which most Chilean consumers (at least 30% of them) seem to care much more about care relations in the households than the quest for status. This relates to a major social process, which is that in contexts of high uncertainties and insecurities brought about by the "privatization of risk", individuals seem to focus their attention and energies on strengthening their family relations (Martuccelli 2012b), something that the ethnographic evidence with low-income families I referred to in chapter 7 made explicit. In this sense one can say that the intensity of the utilization of department store credit cards might be directly related to the number of *strong ties* that an individual has (Granovetter 2004). This is hard to prove, but the fact that the number of department store credit cards increases consistently with the number of household members is very indicative of this relation (chart below). Indeed, we know from the quantitative analysis of chapter 6 that the number of household members is significantly and positively correlated with the odds of having a department store credit card, but not for other types of debts. Of course, the reasons behind this might differ across different income groups, especially because of the number of economically dependent individuals. But social ties and their specific time structures undoubtedly play a crucial role in the way Chilean families use these credits

Figure 51: Share of Households with Department Store Debt by Number of Household Members, Different Income Groups

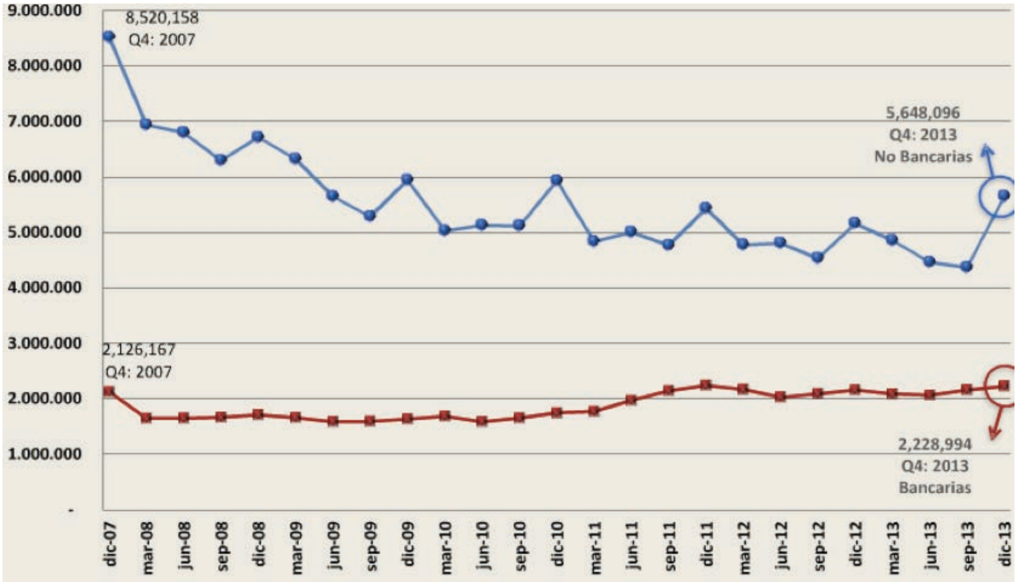


Source: Data from the EFH 2009

On the other hand, there is an "institutional time" that regulates the calendar throughout a year, such as the opening of the school season, Christmas or national celebrations. I already showed the importance of Christmas in the credit-stories previously depicted, but there are other dates in the year that matter as well. March, for instance, where the school season begins, puts an important burden on the shoulders of Chilean families. According to estimates of the Chamber of Commerce, in March, one out of each Chilean "peso" is used to pay for scholar books, clothing, transportation and enrollment fees, reaching in average around USD 280 (in contrast with the USD 180 of the other months). Expenditures on related goods, such as personal computers and accessories also reach their peak during the year.

The role of "institutional times" is clearly depicted in the following chart. As one can see, the number of active department store credit cards –those that are actually used- is very variable throughout the year. Unlike bank credit cards, which people use consistently as a means of payment in order to both organize themselves and benefit from "loyalty programs", the utilization of department store credit cards has a clear time frame. Thus, for example, one can see that the peak utilization of department store credit cards for different years takes place in march (when the school season begins), September (when Chile´s independence is celebrated), and Christmas. This in turn raises the question of why Chileans seem to save for certain periods or activities over others, such as vacation.

Figure 52: Number of Active Non-Bank (blue) and Bank (red) Credit Cards, December 2007-2013



Source: Figure taken from Retail Financiero (2013), Compendio estadístico de la industria del crédito. http://www.retailfinanciero.org/compendios/pageflip_dic2013/index.html

9.6 Financial Practices and the Imaginary Middle Class

Taking the broader picture into account, one can say that these practices -invisible to surveys- represent important and subtle ways in which credit becomes part of the available repertoire of economic practices and shapes the expectations of participation in the Chilean modernization process.

Insofar these practices are informed by normative expectations about *what* gifts are appropriate, *when* to carry out life transitions, and *what* the things one is entitled to have are at *a given* moment, they reflect broader standards of "appropriateness", belonging, decency and status. In this sense, the practice of making gifts with credit stands as a subtle way of performing the "imaginary middle class" and comply with existing and shared consumption standards. Thus for example, the economic independence implicit in the practice of *darse gustos* or making gifts to oneself with credit, is nowhere better represented than in the practice of "doing shopping". In this context, *darse gustos*, which means walking around the shopping mall without any particular purpose and spending (credit) money on something unusual or simply unplanned, such as a haircut, shoes, or a restaurant meal, is at the core of the imagination of the middle class away from material restrictions and with some sense of independence.

In this line of reasoning, credit in the case of housewives represents a way of gaining economic independence in a context where gender relations and unequal opportunities in labor markets prevent them of becoming full members of the economic life of the Chilean society (that is why most housewives that learn how to handle the monthly installments of department stores credit cards acquire debts without telling their husbands). Likewise, the very fact of being recognized as a “subject of credit” when passing through a department store, is a source of recognition and esteem not only for consumers that experience upward mobility but also for those who lack purchasing power but can be recognized as potential consumers anyway.

Finally by gifting “enhanced goods” people implicitly recognize that these “better objects” are valuable for society and themselves, revealing the latent aspirations of Chilean consumers by ultimately gifting the possibility of taking part in the benefits of growth and participating in the affluence of the Chilean society.

Of course, there is in general an important ingredient of impulsivity when consumers acquire a credit card by chance or try to exploit what many perceive as an “opportunity”. This relates to the more sophisticated “recruitment techniques” developed by the industry, which have shaped the way consumers seek to maximize their purchases by having access to offers. But also to the fact that Chileans spend an important part of their free time at the shopping malls, where they are exposed to the marketing campaigns and “attachment” devices of lenders. In any case, as Mauricio and Pamela´s credit-story showed when buying their new sheets and the grill, some of these purchases might be planned in advance and consumers just wait for the proper moment to get discounts by using their credit cards. Furthermore, by making gifts to oneself or being indulgent with consumption by letting oneself seduce by offers is not an individual affair, but a reaffirmation of belonging to the “imaginary middle class”.

Taking the broader picture into consideration, it becomes clear that practices such as buying gifts to the loved ones and oneself with credit indicate that credit has become an important means for Chilean families to participate in rituals, manage social commitments and regulate interpersonal relations, proving that debts are *embedded* in the *social relations* of the household. This goes in line with the hypothesis proposed in the previous chapter, which is that in many cases credit becomes a catalyzer and creator of possible courses of action that shape these aspirations. Thus, for example, while in Diego and Karen´s case banks and department stores debts are normalized first and then considered as a resource that should be constantly put in motion; consumer credits in Monica’s case accelerate expectations of consumption that eventually end up in financial collapse. More broadly, that credit becomes part of the repertoire of practices is clearly seen in the fact that people do not purchase goods on credit but “take out” stuff (*sacar cosas*) from the department store; think of their social commitment and of honoring them with credit (making and enhancing gifts); plan major transformations at home and life-transitions with their “available room”; and trace of strategies to improve their position with consumer debts (turning debts into capital, depicted in chapter 12). In this way one can say that the "imaginary middle class" that people perform with their material practices is also a projection opened by the availability of credit, and reflects the fact that people "think with credit".

Of course, this set of practices is not exhaustive, but they provide a good overview of how people actually consume with credit in Chile, and how these practices relate to their aspirations, social relations and life-projects. From this perspective, the "status anxiety" hypothesis provides elements to think of the relationship between standards of living and the politics of debt without conflating consumption dynamics into the single dominant logic of "conspicuous" or "defensive" consumption. More specifically, by attending to the role played by consumption standards in the everyday making of the middle-class, many practices that cannot be considered neither as entirely "conspicuous" nor "defensive", prove crucial in boosting the financialization of consumption. What I want to address in the next chapters is the role of the *Privatization of Risk* and the second source of "status anxiety", the fear of falling and being left behind in shaping these aspirations and practices.

Part III

Credit and the Privatization of Risk

INTRODUCTION

I argued in part I that if consumer credit works as an unacknowledged social policy in Chile´s Privatized Keynesianism, it should be located at the intersection of three main coordinates: economic growth, inequality and the privatization of risk. Part II was accordingly devoted to exploring different social processes through which the particular articulation between economic growth and inequality compels people to acquire debts in contexts of collective improvement. In this part of the dissertation I turn to a different issue, which is the particular role played by the "privatization of risks" in shaping the financialization of consumption.

This is not an easy task. As I pointed out in the previous chapters, commodification processes do not exert the same effects in contexts of stagnant wages and a general deterioration of the middle-class, than in contexts of economic growth and collective improvement. Indeed, debts in Chile are less used to smooth consumption and systematically mobilized to expand income. But does this mean that rising expectations of wealth accumulation and emulative forms of consumption are the only social forces driving the rising indebtedness of these families? Are these dynamics of competitive consumption the only sources of their "status anxiety"? What is the role of commodification and insecurity in this story?

What one knows so far does not provide an answer to these questions, but tells us where to look for. What became clear to us in part II is that the fact that people expand their incomes with credit does not mean that they are lavishly consuming. In a nutshell, I accounted in the previous chapters for the different ways in which the life-projects and aspirations rise at a higher pace than people´s income, inducing "status anxiety" and prompting them to purchase goods on credit. But what happens when these life-projects are threatened by insecurity or interrupted by the volatility of markets and the economic cycle? What is the role of consumer debt in securing these lifestyles in times of material constrains? And does the commodification of social services affect the financialization of consumption?

Now we have to reiterate the fact that the process of "taking control over one´s life" and following the desired class and life-trajectory, for which people systematically mobilize different types of consumer loans, takes place in a concrete institutional context. More specifically, that it is shaped by the existing balance between the government support and the importance of the market in the provision of goods and services, such as education, housing, health and basic services.

To clear this up, we have to follow political economists in that the provision of public goods, for instance, works as protective institutions that insure people´s lives against labor market volatilities, the economic cycle, retirement or illness (Streeck 2009). A safety net provides thus some relief and reduces "status anxiety" every time people have the certainty that job-loss or high medical bills do not mean the entire interruption of their life-projects. But in highly commodified societies, on the other hand, the market provides these goods and services, and their access is stratified according to people´s purchasing power. As a consequence, the means to carry out life-projects, cope with existing risks, reproduce people´s status, secure their position and attain the desired lifestyle depend heavily on the capacity of families to accumulate wealth and mobilize it in the desired ways. In an unequal context, this means that both constraints and opportunities will be unevenly distributed.

Taking this into consideration is a clear way of bringing into focus the main insights from political economists into the microanalysis of consumer debts, from which we can advance a working hypothesis: If this is true, and in the context of commodified social services the materialization of people´s aspirations and trajectories depend to a great extent on the changing access to resources and opportunities that they experience throughout their life-course, one could also expect people to acquire consumer debts in order to either: i) cope with instability (the classic "defensive consumption hypothesis"); or ii) to deploy their position-taking strategies that aim at catching up with a more demanding economy. Furthermore, if social mobility depends on the deployment of individualized "position taking strategies" (rather than a collective outcome), one can expect iii) that competitive dynamics mediated by "inconspicuous" forms of consumption lead to important pressures on household budgets that ultimately contribute to the financialization of consumption.

The propositions outlined above provide a similar account to that held by most scholars in the field of political economy, but without conflating them into the "defensive consumption" hypothesis. They do not imply that consumer credit is necessarily used to "smooth consumption" in times of material constraints, and certainly do not contradict the assertion that consumer credit in Chile is mainly used to expand the purchasing power of workers in times of prosperity. But they rather provide a more nuanced account of the subtle mechanisms through which the privatization of risk affects the consumption and financial practices of households as a whole. Ultimately, what I want to show throughout the next chapters is that the fact that debts in Chile are mostly used to expand people´s consumption is also a result of the particular way Chilean families carry out their life-projects and allocate their resources in a context of commodified social services, lack of safety net and inequality. In this way, the privatization of risks becomes a different source of "status anxiety" that prompts families to consume beyond their means.

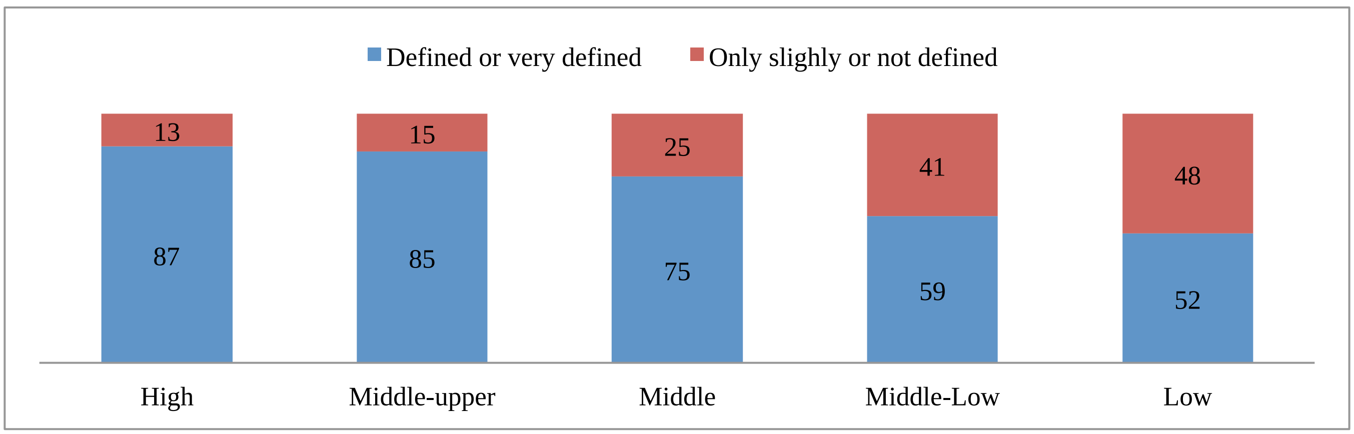
Chapter 10 starts assessing these propositions by sketching the insecurities of Chilean families, which stem from the institutionalization of meritocracy and heterogeneous social trajectories. It then moves on to tackle the question of why people become so indebted, even if they feel very insecure regarding their status, for which the relation between coping strategies, savings and debts is assessed. Chapter 11 follows up on this topic and shows how the commodification of education and the "fear of falling behind" affect the financialization of consumption by creating "arms race" dynamics. Continuing with the same line of reasoning, chapter 12 addresses the role of the commodification of health and pensions, and the "fear of being left behind" in shaping the allocation of resources. Finally, the last chapter assesses how debts themselves become a source of risk in Chile´s Privatized Keynesianism, for which it sketches dangerous practices that Chilean families carry out, and shows how these consumers handle their debts.

CHAPTER 10 INSECURITY, DEBTS AND SAVINGS

Commodification processes in contexts of high inequality distribute social risks in uneven ways throughout the social structure. This represents, in turn, an enormous source of "status anxiety" for Chilean families, which does not stem from pressures to consume but from pressures to secure them against market volatilities and other threads (risks).

In fact, Chilean families are on average satisfied with their accomplishments and life-trajectories, and they seem to have very defined life-projects that they would like to materialize. As a recent Human Development Report showed (PNUD 2012), for instance, most people seem to have a "defined life-project", which is even considerably important among lower income groups, as the chart below shows.

Figure 53: Definition of the Life-project According to socio-economic group



Source: Data taken from PNUD 2012

But Chilean families also feel very insecure with regard to the chances they have to materialize these projects, or prevent them from being interrupted. There are some indicators that help us clarify this. Since the late 1990´s, for instance, the United Nations Development Program in Chile monitors, among other things, the "subjective human security" of Chilean families. It uses a "Subjective Human Security Index" (ISHS) that ranges from 0 to 1 that weights the evaluation people make of the existence and efficacy of available "security mechanisms" in different aspects: work, retirement, health and urban security.

Subjective Human Security in Chile in 2011 was 0.39, which means that for most components of the index, more than 50% of individuals tend to be located at the pole of insecurity. Already during the nineties, Chilean families were quite aware that the world around them –characterized by an open economy and privatization of social services- was insecure in many respects. According to the CEP-PNUD national survey, in 1998, almost 70 and 80 percent of interviewees negatively evaluated the likelihood of finding a new acceptable job or re-inserting themselves in the labor market in case of job loss, respectively.

The general situation has not improved very much and, in many cases, has worsened, as the disaggregation of the index shows.[123] Nowadays, people have consistently lost confidence in that their educational level would let them carry out their life-projects, and a consistent majority declares that they would not be able to pay their medical bills in case of a catastrophic illness or chronic disease. To this we have to add that around 60% feel they would have trouble finding a new job and less than 30% are confident about not losing their job in the next twelve months. Finally, most people in Chile feel that their pension would not even cover their basic necessities, which also holds true for those who have and do not have a savings account for retirement (PNUD 2012).[124]

But what is the source of these insecurities? As we will see now, these insecurities and anxieties stem from structural transformations and new dynamics of social mobility in contemporary Chile. Showing this is crucial to understand how the materialization of the life-project in a volatile context leads directly and indirectly to the rise of consumer debts. Ultimately, the underlying idea is that if commodification has an effect on the financialization of consumption, it is because it becomes a different source of "status anxiety" that affects the materialization of the life-project.

10.1 Meritocracy, "Position-taking" Strategies and Status Anxiety

The key source of insecurity through which inequality and commodification induce "status anxiety" is by the institutionalization of meritocracy. After the democratic transition in 1990, governments of the center-left coalition sought to correct the main distortions of the newly created markets, in some cases deepen and finish the commodification processes, while in others ameliorate the perverse consequences of unfettered markets through increasing social spending.

Social policy throughout this period (1990 onwards) was built on the basis of fiscal discipline, which together with economic growth increased social spending from 1990 to 2009 at an annual average

[123] The index has seen some improvements during the last decade, from 0.33 in 1997 to 0.39 in 2011. The most important improvement was in the dimension of health, where more people seem to feel that they would get a timely medical attention than before (31 to 42%), or that would be able to pay for the medical bills (18 to 30%). As one can expect, most of these improvements are concentrated on the lowest-income groups, basically due to targeted social policies.

[124] The relevant fear that is extended across all socioeconomic groups, although it is indirectly related to commodification, is the fear of being victim of delinquency (80% of the population feel that it is likely that they or a relative will suffer robbery in public spaces).

rate over 7 percent. In relative terms, social spending rose from 12% of the GDP in 1990 to a 17% in 2009, while as a percent of total government expenditure, it rose from 61 to 67% (Arellano 2011).[125]

As we saw in chapter 7, however, most social spending targeted the poorest groups of the Chilean society and helped improving their life-conditions in important ways, but left the new middle-classes basically by their own capitalizing the new educational and labor opportunities, as well coping with all sorts of risks. As the table below shows, the net transferences from the state in the last decades has been considerable smaller in the case of middle income groups, while it represented an important share of the median disposable income in the case of poorer households. As sketched in chapter 8, this new middle-class –driving force of the financialization of consumption- rather emerged on the verge of rising wages and their own effort.

Table 12: Net Transfers by Income Deciles Chile 2006 (weighted average % of total median disposable income)

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Net Transferences	86	35.4	18.9	9.3	2.3	-1.9	-5.9	-8.8	-10.6	-15.2
Taxes	-16.7	-18.6	-18.9	-18.5	-18.3	-17.7	-16.9	-16	-14.4	-16.1
Social Spending	102.7	54	37.8	27.8	20.6	15.8	7.3	7.3	3.9	0.9

Source: (Bazoret and Fierro 2011).

Culturally speaking, this state of affairs found its corollary in the embracement of meritocracy and personal effort as the most important values defining the identities of these groups, as well as a generalized condemnation of any type of government support (Bazoret/Fierro 2011). Thus, for example, the radical faith in personal effort is illustrated by the fact that an overwhelming share of Chileans believe that someone who is “born to a poor family” could perfectly success in her life, while only a few think that succeeding is impossible for someone who is “born poor”.[126] As another national survey reported, most

[125] This spending was financed by a flat rate tax (VAT), which remained essentially the same (around 19%). Surpluses created by fiscal discipline made this possible, as well as the release of resources to be spent in infrastructure and social services, which were left in the hands of private initiatives through a system of concessions implemented in 1992.

[126] 78.4 and 18.9 of respondents respectively, according to a National Survey conducted by the Universidad Diego Portales in 2013. The survey is available at:

Chileans (74% of interviewees) think that “reaching happiness” depends on “what one does”, while only a few (15%) consider that it depends on “available opportunities” and “personal luck” (11%) (PNUD 2012).

The perceptions of Chileans are also rooted in important structural changes undergone by the middle-class, such as the demise of the public sector and the rise of private bureaucracies (which by definition provide more flexible conditions than the public sector), and an increase in the number of independent workers (Torche 2005).[127]

Seen from a structural perspective, changes in the social structure indicate an important shift from patterns of “collective social mobility” of the decades prior to the 1980´s (based on public investment and the consolidation of professional associations, public servants and unions), to more “individualized” and “fragmented” forms of social mobility. This is a process that has been characterized as a transition from patterns of “class struggle” to “position-taking struggles” (Bazoret/Fierro 2011). This means that social mobility is no longer the result of the political action of collective actors but rather the outcome of the specific strategies developed by families, which might rise or fall in the attempt to fulfill their life-projects.

This pattern of individualized “position-taking struggles” or “fragmented trajectories” has been very dynamic. Thus, for example, one witnesses that only a small share of households that in 1996 belonged to the poorest income group (28.1), was still poor in 2006, and 24.5 % of them experienced upward mobility between the fifth and tenth (richest) income deciles. If one compares these patterns with those of developing countries such as Venezuela or Indonesia, one can see that the coefficient of social mobility among the Chilean middle-class is considerably high (Contreras et al. 2005).

In any case, scholars have showed that the “fluid social mobility” of the new middle-class is not only ascendant, but an important share of households transits across the poverty threshold in both directions (Contreras et al. 2005). That is why -even though many Chileans moved out of poverty in the last decades- it is hard to guarantee that these families will not be poor in a different period. In this sense, scholars documented, for example, that the lower strata of the middle classes are very vulnerable to fall under the poverty line in the face of unemployment, retirement or health problems (Bazoret/Fierro 2011). In fact, 34% of families that in 1996 were in the middle of the income distribution (between the V and VII income deciles) descended in 2006 to the bottom 20 percent (I and II income deciles). By the same token, Neilson et al. (2008) show that 11.4 percent of households that were not poor in 1996 fell into poverty in

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http://encuesta.udp.cl/descargas/banco%20de%20datos/2013_Primer%20Semestre/Principales%20Resultados%202013_Primer%20Semestre.pdf

[127] Many of these new independent workers were indeed “forced entrepreneurs” pushed by the dismantling of the public sector in the Pinochet era (Munoz 2007).

2001, and these ‘new poor’ families actually accounted for 46 percent of “all poor” at that time. Finally, 20.1 per cent of the population was transiently poor between 1996 and 2001, and chronic poverty was 9.2 per cent, which implies that more than half of all poor households traced at a moment in time are indeed transiently poor, and that 30 per cent of the population earned incomes under the poverty threshold at some point during the two periods observed.

Patterns of social mobility seem to have worsened after the 2000s. According to Torche (2005), having an occupation different from one´s parents is now more difficult than a decade ago; the extremes of the social structure are harder to penetrate, being more difficult moving out of poverty or becoming a new upper class family. This “social closure” might become an important source of frustration for many families that internalized the value of personal effort, but in practice face serious constrains to carry out their life-projects. Moreover, these studies also suggest that although the expansion of education created patterns of upward mobility, families in the middle of the income distribution are susceptible to losing their status more than previous generations (Espinoza et. Al 2011).

This pattern of social mobility provides key insights into understanding the dynamics of indebtedness. One of the consequences of such dynamism is that an important share of the Chilean middle class had heterogeneous social experiences during their life-course. This supports the idea that for most families the realization of their life-projects is not a stable and smooth process. According to Bazoret/Fierro (2011), this is reflected on the adjectives with which these groups classify themselves, such as *emergent* (prosperous) and positing their hopes on the future of their children, but with strong feelings of anguish stemming from an uncertain future and lack of safety net. This tension between meritocratic values and insecurity finds its grounds on the trajectories of these families, which have learnt that just as one can succeed and “be on top”, it is possible to fall, especially among the bottom 70% of the population (Arzola/Castro 2009; Torche 2005). This contradiction is an important source of “status anxiety” of Chilean families, but it operates in a different direction. Rather than prompting people to catch up with new and more stylized standards of living, it compels them to take action in order to prevent them from “falling behind” or “being left aside”.

10.1.1 The puzzle of instability

Altogether, these different sources of insecurity and anxiety pose a striking puzzle: if people feel so insecure, why are they acquiring so much consumer debts to buy more things? Do they prefer to succumb to the increasing pressures to consume rather than secure their lives? How do these families cope with instability if they have nothing but debts?

Part of the answer to these questions was already outlined when arguing that inequality puts an important pressure by ratcheting up the standards of living at a higher pace than the growth of incomes, which creates a gap between incomes and aspirations. But there is still more to unveil. The fact that the "smooth consumption" function of credit was ruled out does not mean that there is no relation between insecurity and financialization. It only means that one has to look at this relationship from a different angle.

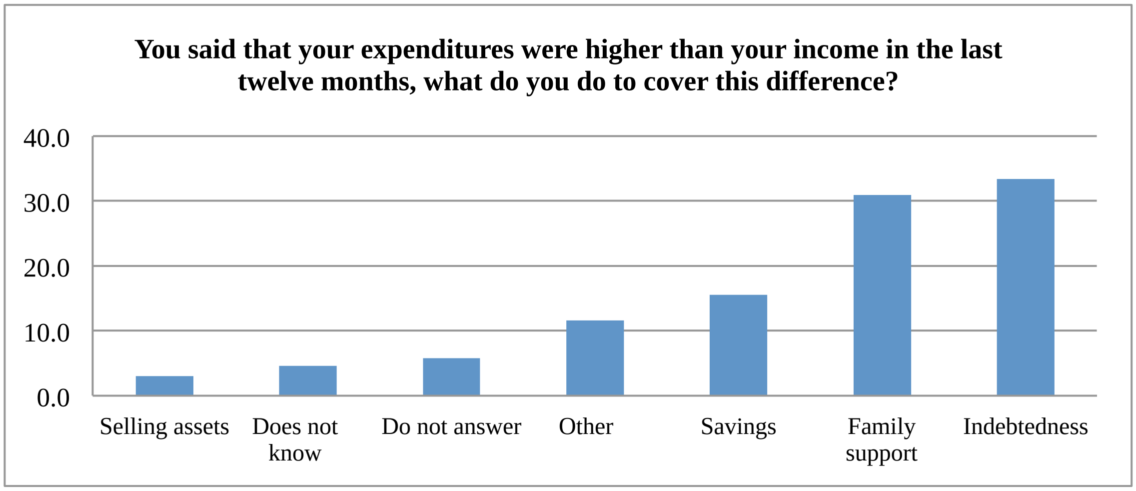
To show this more clearly and understand how the privatization of risks affects people´s financial practices, I start by looking into the role of debts and other means for coping with income shocks and threads, analyzing in more detail the relationship between savings and debts among Chilean families. Then I will move on in the next chapters to analyze the role of the privatization of education, health and retirement in shaping the financial practices of these households.

10.1.2 How do Chilean families deal with emergencies?

It was already argued that insecurity in the context of commodified social services stems from the fact that, without a safety net or the government support, the access to the resources to ensure families´ social status and lifestyles is not secured, at least for many families (Streeck 2009). Insecurity in this sense also stems from the fact that families do not have access to appropriate market insurance policies, lack of self-insuring mechanisms such as savings, or government support. This is especially pressing for middle-income families that are neither subjects of targeted public assistance, nor their insurance prevent them from losing their social status (Bazoret/Fierro 2011). In this regard, one could say that debts are one among several forms of coping with risks and insecurity, such as saving for emergencies, paying for insurance or working extra-hours to improve one´s income. If one wants to rule out the "defensive consumption" hypothesis in its most simple form, one still has to look into these other sources of protection. After all, debts are only one component of the budget.

To start with, people facing expenditures higher than their incomes –for whatever reasons- rely on different sources of aid. Thus for example, from the 46% of the people that in 2009 declared that their expenditures were higher than their income during the last twelve months, an important share of them used as much family support as credit to cope with higher expenditures, and an important number relied on savings (see chart below).

Figure 54: How people cover the gap between incomes and expenses



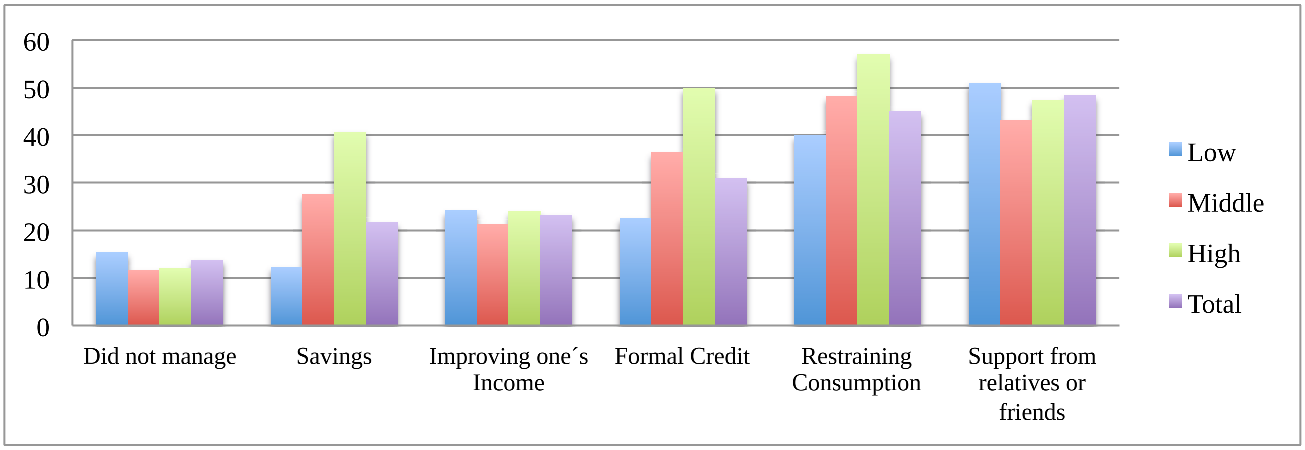
Source: Data from the EFH 2011/2012

But this might not be the best indicator to address people´s coping strategies, since higher expenditures might be created by causes different from emergencies, such as social commitments (a wedding), a turning point (moving to one´s home) or by making an investment (starting a business or home improvements). In this sense, one finds insights into the Household Financial Survey of 2011/2012, where interviewees are asked "if they faced unexpected expenditures or drops of income between 2009 and 2011". And indeed, one can evidence a different logic for people that experienced unexpected expenditures or an important drop of income.

As the survey shows, 37% of households faced these constraints in this period. Contrary to the most common belief held by economists, these families did not liquidate their "assets" in times of crises, which suggests that, at least for Chileans, they do not represent any form of "savings". More interestingly, however, is that the most mentioned alternatives by these families to cope with emergencies were not formal debts, but support from relatives and reduction in expenditures. [128]

[128] We have to keep in mind that they can mention more than one alternative.

Figure 55: "How did you manage to adjust your budget?" Percentage of Interviewees that Mention Each Category, 2012



Source: Data from the EFH 2011/2012

The way families seem to cope with emergencies relates to two facts: firstly, in line with what the qualitative research of Stillerman (2009), Han (2012) and Barros (2011) found when studying poor consumers in Santiago, families in higher risk of losing their jobs and facing health problems pool their resources in order to cope with material constraints (from which the multipurpose money of "cash withdrawals" is one among other sources of income).[129] This is why, in most extreme cases, rather than engaging in practices of competitive and emulative consumption in relation to their reference groups, poorer families are primarily building networks of reciprocity and mutual care (Stillerman 2009).

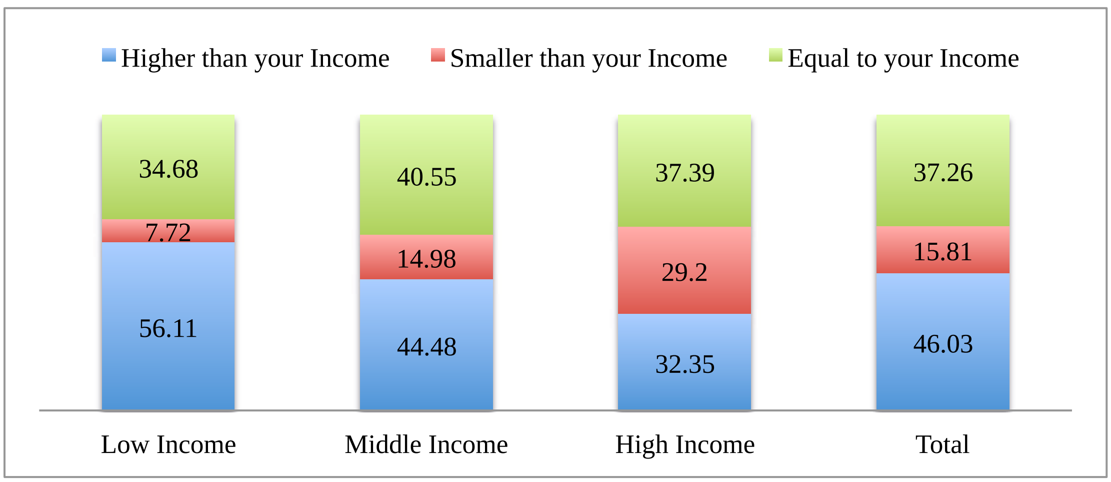
Secondly, that for many families that only have department store credit cards, these credits are attached to within-store purchases that would not be useful to smooth their consumption (besides the fact that lenders are more reluctant to lend without collaterals). This is further supported by Álvarez/Opazo (2013), who analyzed panel data between 2007 and 2011 and showed that non-bank unsecured debts have no significant relation to income variations. Furthermore, one can argue that the alternative of "downshifting" ("restraining consumption" in the survey) basically means restraining from acquiring durable goods, which, in many cases, are purchased with credit. There is some evidence that supports this idea. As Gallego/Morandé/Soto (2001) showed, the volatility of purchases is higher for the consumption of durable goods than for non-durable goods. The former seem to be much more sensitive to the economic cycle, which means that families seem to be more prompt to adjust their budget and not acquiring furniture, electronics or cars, rather than changing their lifestyles in the wake of changes of income levels.

[129] In this sense, credit plays a "defensive role" at the fringe of the poverty line, every time poorer consumer use formal and informal sources of credit to face unemployment, illness or insufficient pensions.

For instance, the majority of shocks undergone by expenditures on non-durable goods between 1987 and 1999, are positive although small, while the negative shocks are less frequent. In the case of durable goods, on the other hand, they experienced less frequent but bigger positive shocks, which means that crises affect these purchases more than everyday life expenditures.

Another conclusion one can draw from this is that most people do not resort to savings in order to cope with instability. The reason for this is simple: which is that 37.26% of Chileans declare to spend what they earn (expenditures=income), and only 15% of Chileans declare to consume less than their incomes (expenditures<income). As one can expect, the ability to "save money" -or spend less than your income- of families is very much determined by income. Only 7.72% of people from the lowest five income deciles can save, which increases to 14.98% for those belonging to the 6 to 8 income deciles, and reaches its peak of 29.2% in the richest 20 percent. This is something one can expect, since it has been seen that most families in Chile spend more than their incomes and that wages fall short against the socially constructed standards of living, especially among the poorest.

Figure 56: Considering the Last Twelve Months, Would You Say That the Expenditures of Your Household Were? (2009)



Source: Data from the EFH 2009

But what is this 15% of family savings for? Using the EFH 2009, one can group the reasons that people provide for setting aside their surpluses into four different "logics". The first one (see table below), represents an "acquisitive logic" according to which people save to purchase goods or services in the future, such as home appliances, a home, home renovations, jewelries, art pieces, vacation plans or future savings. What they have in common is that in all these cases people sacrifice the present to purchase something defined for the future.

This seems to be an important criterion to save for Chilean consumers, which altogether is mentioned by 25% of those that save. However, higher income groups save for these purposes in more important ways than the rest, especially to go on vacation and buy home appliances. Middle-income groups that save under an "acquisition logic", on the other hand, seek to buy a home and make home improvements in a higher proportion, although the differences are not very significant. These reasons are also the only important motives to save under this logic for poorer consumers. Indeed, one can expect poorer people to be “saving for a home” because it is a precondition to obtain the government housing subsidy. This goes in line with the idea that the family project is one of the most important aspirations, for which people might want to save money or use credit.

The second logic one can clearly distinguish to group reasons for savings is geared at coping with emergencies, which one calls “defensive logic”. This is by far the most important reason that Chilean consumers seem to have when saving (at least 40% mentioned “emergencies). In order of relevance, most people save to have a safety net, equally distributed throughout income groups; it is followed by retirement (which doubles in importance for people of high income groups). In third place, people seem to save to afford educational costs in a similar proportion across income groups. And finally, medical treatments seem to preoccupy middle income groups in a higher proportion, while paying-off debts is a major concern for those who save in the low income groups.

A third logic, which one might call “relational”, allows us to see if people save in order to honor their social commitments and care relations, such as weddings, having a child or bequeath something to their relatives. These reasons are not very important for these “savers”, which goes in line with the fact that Chileans consistently use consumer credit to finance expenditures that relate to their social commitments and care relations (see chapter 9).

The fourth logic one can distinguish is the “managerial” one, which is basically reduced to the decision of saving to invest and start a business. This is not very important in the overall picture, but one can see that such motive is much more important for high income consumers. Finally, there seems to be a stable group of people (around 20%) that save without any specific purpose, equally distributed across income groups, which one can say have a “saving culture”.[130]

[130] Moreover, there are some patterns that allocate savings according to the life-cycle of these heads of household. Thus, medical treatment and paying-off debts are predominant reasons at a middle-late stage of the life-cycle (between 55 and 64), while financing education, having a safety net or "just save" are predominant in the middle of the (45-54). Younger heads of households, on the other hand, seem to save principally to buy home appliances. With this one sees that savings follow an expansive logic in the early stages to progressively turn into a more "defensive" or "protective" logic.

Figure 57: Reasons for Saving and Income Group, 2009[131]

Underlying logic for saving	Reason to save	Low Income	Middle Income	High Income	Total
Acquisition	To buy a home	4,71	7,72	6,43	6,29
	To make major home improvements	3,47	4,96	2,42	3,61
	To buy home appliances	1,61	2,07	7,18	3,64
	To buy Jewelry	0	0	0	0
	To buy and Art Piece	0,42	0	0	0,14
	To satisfy Future Expenditures	2,42	1,86	2,61	2,3
	To go on vacation	1,95	3,09	16,96	7,39
	Future Income	0,16	0,18	3,63	1,34
Defensive	Safety Net	39,87	41,52	39,28	40,22
	Retirement	10,39	11,76	20,4	14,22
	Education	9,16	9,47	12,45	10,37
	Pay-off of debts	8,91	5,07	3,88	5,94
	Medical treatment	3,39	4,05	2,19	3,2
Relational	Have Children	0	0,4	0,48	0,29
	Wedding or other ceremonies	0,44	0	0,41	0,29
	Inheritance	0,42	0,43	2,2	1,03
Managerial	Investment	0	1,63	6,42	2,7
No purpose	Purely for saving	22,75	22,15	18,42	21,09

Source: Data taken from EFH 2009

In sum, in line with the high levels of insecurity one sketched before, most Chilean families that can save do it for precautionary reasons (a safety net, education and retirement). Moreover, from those that save to buy something, an important number does it to buy a home, which might be the population that wants to get a housing subsidy (middle and low income groups) or apply for a mortgage (high income group). The rest might account for consumers that prefer to purchase their things on cash and reject becoming indebted.

It is clear from this that most people save to deal with different sources of insecurity and anxiety, but only a very reduced number of households manage to spend less than their incomes and set aside these savings. The question this raises is why most families, which feel very insecure and anxious regarding

[131] Interviewees can mention more than one option.

their future, are not able to consume less than their incomes and save some money. In other words, if insecurity is a generalized issue among Chilean households, can one assume that only 15% of them are willing to have a safety net? Are they just too consumerist and prefer to sacrifice their future income for the sake of the present, even with high levels of insecurity?

There are two conventional answers to these questions. The first one, which comes from conventional wisdom in economics is that Chileans have a good deal of savings, considering that durable goods are “assets”. Accordingly, one should then consider most consumer debts in Chile –which are used to buy the standard package of durable goods- as some form of savings. And indeed saving rates in Chile increase in important ways when one considers investments in education and durable goods as assets (see for example Butelmann/Gallego (2000), and Huneus (2001) for the case of Chile). But the problem with this answer is that it conflates savings with debt and would lead us to think that almost “nobody” in Chile is indebted, and ultimately overlook the role of inequality in shaping the status anxiety of Chilean consumers (as it was seen in previous chapters). It was already showed that people acquire durable goods on credit not because they think they represent some form of “savings” or “assets”, but they acquire a standard package they consider legitimate to have in a context of “status anxiety” and low wages.[132] There is, of course, no doubt that finances help people accumulate assets (and debts) for which they have not enough income in the present moment, and this is indeed the case of people buying durable goods. In this sense a refrigerator that lasts for several years becomes a savings in the future. But from the perspective of a political economy of debt, the belief that indebtedness is only converted into “savings” shadows the political role of consumer credit in making distributive conflicts and inequality less salient.

The second possible answer is that one can expect that Chileans do not save because, after all, if people were willing to save there would be no need for borrowing money. The problem then is that there is a culture that emphasizes using resources from the future to enjoy the present, rather than sacrificing the present for the sake of an uncertain future (insurances, retirement or conventional savings); i.e. Chileans are essentially consumerists. But is it so evident that people that have debts do not save, or, to the contrary, that those who save do not hold debts? Are they really two contradictory and exclusive behaviors? Ultimately, such perception is based on a “portfolio” view of the household, where savings and debts are two sides of the same coin: an indebted household has a negative balance in its budget, while one with savings has positive numbers, from which it is deduced that savings and debts are residual categories that exclude each other: people spend more or less than what they earn, and the differential can be considered as debts or savings.

[132] The only thing one knows so far, is that the rationale behind the acquisition of consumer loans by educated and higher income consumers, is that debts are, in many cases, justified as investments (van Bavel/Sell-Trujillo 2003), which according to the Households Financial Survey in 2009 accounted only for 6.34% of bank consumer loans and 0.99% of department store credit card debts.

But this relation is not so straightforward. That people systematically keep savings while having a negative credit card debt balance is a well-known fact in the field of consumer lending, and a striking puzzle for neoclassical economists (Telyukova 2008; Bertaut/Haliassos/Reiter 2009; Fulford 2010). And this seems to be the case of Chile. As the data of the Households´ Financial Survey 2009 show, from the 37.2% of heads of households that declare that their incomes have been equal to their expenditures, 37.5% have at least a debt with a department store credit card. Moreover, from the 15.8% that declares that their expenditures are smaller than their incomes, 44.3% have debts with a department store, which means that many of those that actually save money have also debts. It seems to be that for many people “being in debt” is not necessarily spending more than your income, something that confirms what was found in our first credit-story.

So, the question for us still remains the same: why do Chileans fail to save and/or acquire debts if they are so insecure? We already outlined part of the answer to this questions when showing that more demanding standards of living create pressures to consume beyond people´s means. But as we will show now, this is still an incomplete answer because there are less visible mechanisms preventing people from saving and fostering the financialization of consumption. To show this, I will analyze in the following chapters the role of commodification of social services.

Chapter 11 The fear of "Falling Behind": Educational "Arms Race" and Financialization

In chapter 6, I showed that having household members generating expenditures on education increases the odds of having different types of consumer debts. Likewise, existing estimations suggest that having a household member studying at the university does not account for debt levels, but it is positively correlated with becoming over-indebted from being indebted. This is somehow puzzling. If Chileans do not use debts to afford education, but rather to acquire mostly durable goods, why are expenditures on education and indebtedness related? In this chapter I provide an answer to this question and show the concrete mechanisms through which the commodification of education leads to increasing indebtedness.

Education is one of the most important subjects to see how commodification leads to financialization by affecting the "position-taking" strategies of families. It is, indeed, one of main sources of "status anxiety" for Chilean households. Studies in Chile have showed that the life-project is strongly related to the educational background and opportunities that people have (PNUD 2012). And, it has been demonstrated that in Chile education (investments on human capital) is the most determining factor in the transmission of wealth from parents to children, used by parents to pass advantage from one generation to another, and such indirect transferences have a direct impact on both life-standards (consumption levels) as well as on assets holding (Spilerman and Torche 2005). But how does a commodified education lead to increasing consumer debts?

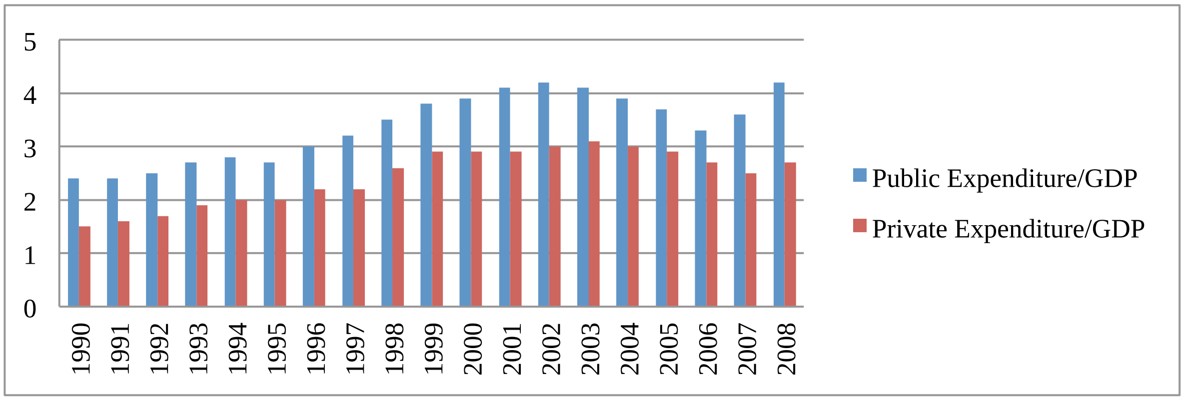
As was seen in chapter 3, education in Chile was privatized during the 1980s in all levels, and the government played a key role in creating "educational consumers" by strongly subsidizing first the elementary and secondary levels, and then progressively financializing the access to higher education. In both cases, the expansion of education was marked by an important expansion of social spending on education at all levels. Although spending on education decreased by 11 percent in real terms between 1985 and 1990, the situation was reversed during the democratic governments, growing more than 10 percent in real terms per year between 1990 and 2009. Since then, the main priorities of the government have been pre-school, elementary and secondary school, improving their coverage considerably among all income groups.[133] As it was already mentioned, this made possible an impressive expansion of education, especially among poorer households.

Nevertheless, the situation described above did not prevent the commodification and income inequality of having unintended consequences that ended up putting pressure on the family budget. Taken as a whole "private spending" on education has been as important as "public spending", and it grew even

[133] Several policies aimed at increasing coverage, from full school day to preferential subsidy per student.

faster during the nineties, higher education being the most expensive level for which the government contributes only around fifteen percent of total yearly investment (Rodríguez et. Al 2010). This happened because the expansion of education went hand in hand with the increasing efforts of families to send their children first to quality schools if possible, and then to go to college.

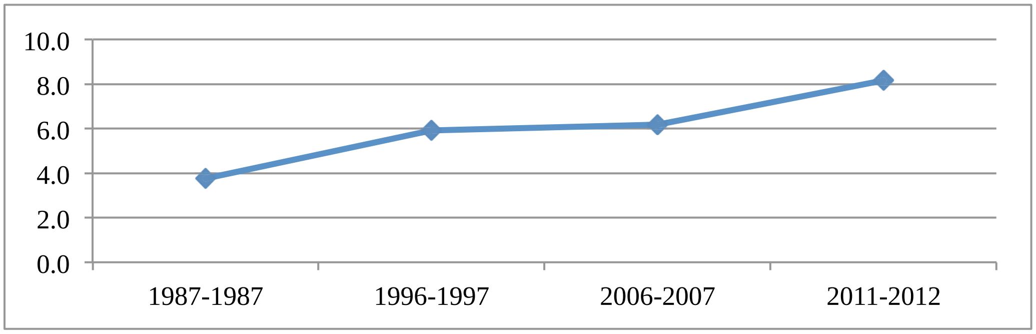
Figure 58: Total Expenditure of Education as a Percentage of GDP, 1990-2008



Source: Data taken from Arellano (2011)

Both commodification and the higher social spending on elementary and secondary education affected the way families allocate their budgets. In the first place, it was seen in chapter 7 that a bigger education coverage did not necessarily translate into better wages. The result of such expansion was rather the devaluation of secondary education, which ultimately pushed families to target higher education as one of their main goals. In general terms, this explains why Chilean families have been systematically increasing the share of expenditures they allocate to afford education, as the chart below shows. This way of ratcheting up the demand for education is well described as an “arms race” dynamics, where Chilean families enter into the race for positioning themselves and equipping their children properly in a context where education at all levels is becoming a minimum requirement. To understand how the new patterns of social mobility and educational boom put pressure on the budget of Chilean families, one has to return to the logic of “positional goods” in the economy. After all, commodified education is one of the goods exchanged on the market whose “possession” affects the life-chances of people more than any other goods.

Figure 59: Evolution of Average Expenditures on Education As a Share of Total Expenditures



Source: Data from the Households´ Budget Survey (EPS) 2011/2012.

11.1 Catching-up with the Economy

The "positionality" of goods in economics stems from the fact that people tend to evaluate them in relation to the possessions of others (Frank 2007). The question then is why and what types of goods one can expect to be considered as positional under what circumstances, and how this might affect the financial burden of households.

Economists have usually posed evolutionary answers to these questions, such as the fact that one looks for goods that secure one´s status which ultimately helps us survive (Frank 2007). But from the sociological perspective developed here, it becomes clearer that goods are "positional" because under specific contexts certain possessions might generate special pressures on consumers to be acquired, triggering "arms races" or "bidding war" over the goods in question without them being "conspicuous" in any sense.

As with the emulative form of "conspicuous consumption" studied by Veblen, the concepts of "arms race" or "bidding war" stresses the escalating character of competitive patterns of consumption that ratchet up the demand for goods in a zero-sum game. The difference, however, is that the possession of some "positional goods" might well be "inconspicuous" (in the sense of not communicating status by deploying wealth), but their possession is nevertheless directly translated into advantages or disadvantages in the "position-taking struggles". From this perspective, for example, one could argue that the increasing expenditures on computers -that rose 3.8 times between 1997 and 2007 according to the Household Budgets Survey - is not driven entirely by "status" or "distinction" but by the fact that they became "basic tools" in the digital era. The same holds true for other intangible goods such as learning a second language or pursuing a professional degree when everybody else is attending college. Education is, indeed, one of the most obvious and important examples of *inconspicuous positional goods* whose demand triggers "arms races" dynamics, basically because it is expensive and represents the main means of social mobility for the middle-class.[134] It is in this sense that the increasing consumption of “positional goods” (as a result of higher wages or available credit) might trigger dynamics that escalate the consumption of inconspicuous goods.

What follows from the previous idea is that every time education has to be bought on the market, the budget of families is confronted with a particular trade-off between saving, purchasing goods or spending money to ensure the successful trajectories of their children in labor markets. In other words, this represents a clear way in which spending money might become a “defensive strategy”. Following this line of argument, one could argue that a generalizable mechanism triggering indebtedness is the so called “bidding war” that scales up competitive dynamics in different fields, such as college or mortgage prices, as well as discretionary consumption. Let me next show this in more detail.

11.2 “Budget Gap” and “Bidding War”, Two Mechanisms fostering Debts

The way educational “arms races” put pressure on the budgets is quite particular and change at different levels of the educational system. The three-tier segmentation of the schooling system, for example, had specific unintended consequences (which were probably very easily predicted) that triggered “bidding war” among Chilean families.

Currently, the schooling system in Chile is segmented in: a) private, expensive and successful schools; b) co-financed, less expensive and average achievement schools; and c) public, free and less successful schools (with a few exceptions). The underlying ideology of the neoliberal economists that created the system was that families from different socio-economic backgrounds should enjoy freedom of choice when deciding which school to send their children to, which would at the same time foster competition among schools to attract good students by improving their quality. But it turned out that the most critical “market failure” in education is that competition among educational providers does not necessarily increase the quality of the service (education), and that ultimately educational outcomes remain strongly correlated with the socioeconomic background of students and the school they attend.

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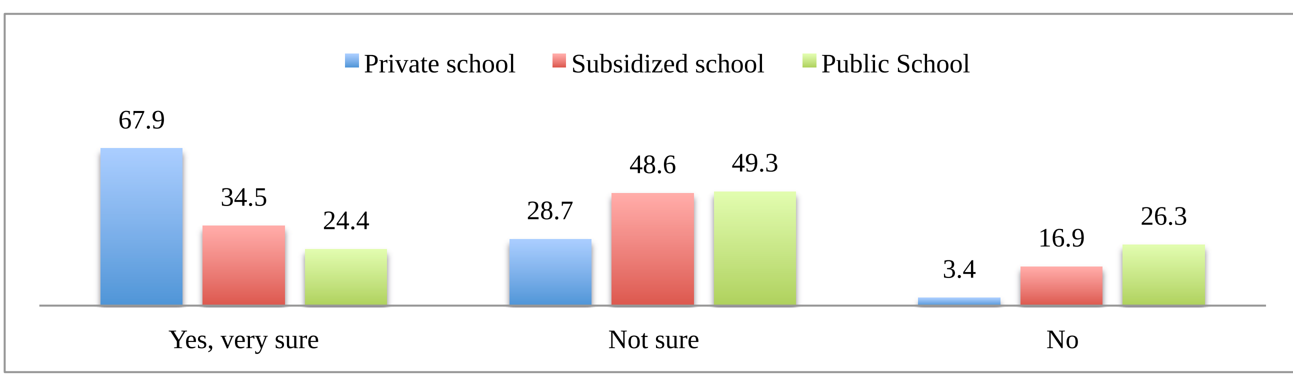
134 As Warren (2003) showed, this is indeed one of the main explanations behind the rising bankruptcy rates of middle class families in the U.S. In this case, “bidding wars” take the form of a “two income trap” that couples with children face in the wake of rising housing prices: while women were increasingly incorporated into the labor force in order to give economic edge to their families as a palliative to stagnant wages (among other reasons), the new resources brought in by this second income has created a competition in the form of a “bidding war” for finding a house in a decent school district. These competitive dynamics not only affect families involved, but also inflict huge costs on those who do not, basically because parents´ attempts to find the proper house to secure their children´s education have increasingly the prices on the housing market, exerting generalized pressure to take huge mortgages in order to fulfill the expectations of a “good education”. This also paves the way for a new bidding war that triggers the rising costs of college prices.

In the Chilean context, this means that private schools systematically reach considerable better results than subsidized and public schools in evaluation procedures administered throughout the school year (the national test SIMCE), as well as in the standard exams administered by the higher education system (exam for university selection, PSU). As Contreras/Corbalán/Redondo (2007) show, such differences concerning educational achievement are mainly explained by the socioeconomic background of students, being income and parent´s educational levels the best predictors of students´ performance (Contreras/Corbalán/Redondo 2007; Spilerman/Torche 2005) . In this sense, results reflect the segmented character of the educational system, where in 1998, for example, 70% of students from public schools came from the poorest 40% households in the country (Beyer 2000), a tendency that continues until today. In the end, although it seems to be difficult to establish clear differences between the results obtained in public and subsidized school, studies have showed that even controlled by socioeconomic background of student, the results are better among private schools (Beyer 2000).[135]

In this context, it is very clear that educational achievement is bounded to the efforts made by families to afford a better education, which becomes clear if one takes a look into the prices of successful private schools in Chile. If one considers the eight private schools whose students obtained the highest scores in the national selection tests to get into college in 2014, one can see that the fees range from around USD 1200 a year to a monthly fee of around USD 800, which is almost the wage earned by more than half of Chilean workers.[136] Moreover, these prices do not include the enrollment fees these schools charge every year and that can well reach USD 600. As it is well known, the advantages of attending these schools cannot be reduced to educational achievement but also relate to other benefits such as social capital. As a press release in 2008 showed, for instance, more than 80% of the CEO´s of the 100 biggest companies in Chile studied in private schools, and at least fifty percent of them graduated only from five prestigious private schools. This seems to have worsened throughout the years, since the number of "young CEOs" educated in private schools reaches 90%.[137]

Figure 60: With the Education That Your Son Currently Receives, Do You Think He/She Will Get Into College?



results,

mejor-

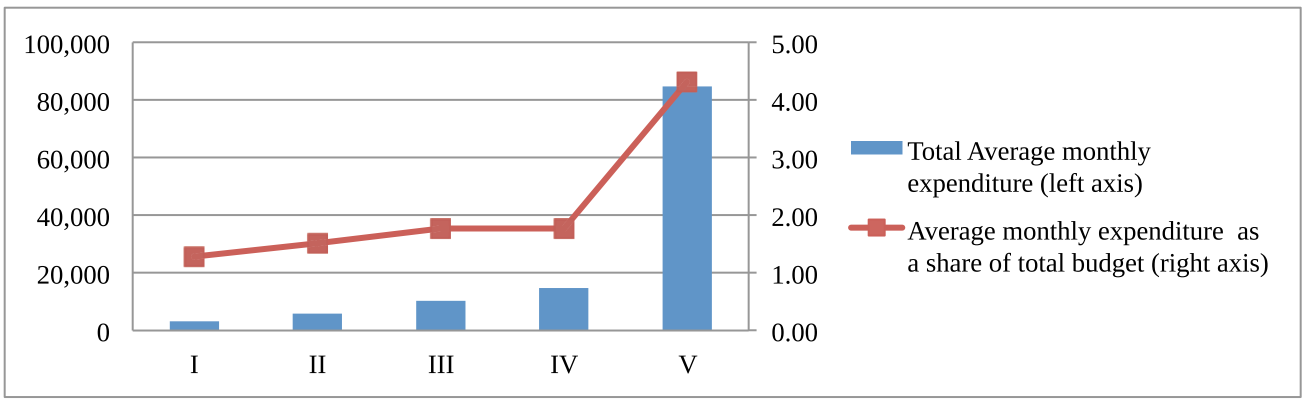
[137] "La Tercera" March 30th, 2008.

Source: Data from PNUD (2000)

In fact, this is something families were already aware of in the late 1990´s. As the chart below shows, most Chilean families sending their children to private schools perceived that their chances to get into college were much greater than those that were in the subsidized or public system. Sending your children to a public school, on the other hand, seems to be the last option for those parents that want their children to enroll in higher education.

This is why the average expenditures of families on elementary and secondary education reflect their purchasing power. As it can be seen in the chart below, only the richest 20% of Chilean families allocate on average more than 4% of their total expenditures in education, which diminishes to around 1.5% among the poorest 20%. In terms of total expenditures, the difference is even more noticeable, where a family from the richest 20 percent spends on average around USD 160 a month, while a family located in the middle of the income distribution spends around USD 20 a month. As one can expected, this does not mean that most Chilean families are happy with their educational choices, but that with the given prices, it would be just impossible for a median earner to send his/her children to a private school that might increase their chances of success.

Figure 61: Average Monthly Expenditures in Pre-school, Secondary and High School by Income Quintile, 2011/2012 (Chilean Pesos)



Source: Data from the Households´ Budget Survey (EPS) 2011/2012.

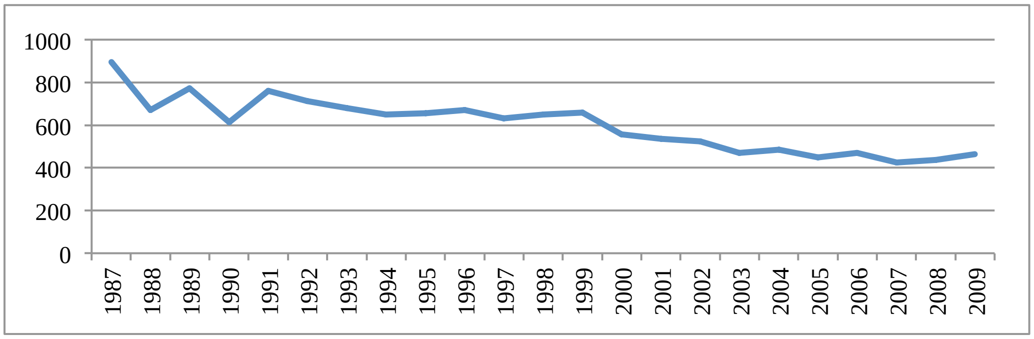
Such mixed educational system that reproduces rather than shrinks social differences becomes, in this way, a source of insecurity every time education has to be conceived of as an investment that households make in context of material restrictions. Moreover, families are quite aware of the results obtained by different types of educational institutions, which makes to downshift from private to subsidized harder, or from subsidized to public school in the case of decreased purchasing power. In any case, the price differentials between subsidized and private schools (not to mention public ones) are so huge that for most families it is simply not an option to divert resources in order to pay for a better private school. In this scenario, educational mobility has been much more dynamic in public and subsidized schools, but private schools still remain unreachable for the big majority.[138] The problem is that, unlike higher education it is not possible to apply for a "School loan" in order to attend to a private school to improve life-chances. Thus, the battle for gaining territory in the individualized "position-taking struggles" is translated into the sphere of higher education, where commodification is almost absolute.

The effects of the commodification of higher education are more direct. I already mentioned that Chile experienced a boom of higher education in the 2000s.While in 1990 there were around 245.000 undergraduate students, enrollment in 2000 reached 436.000 and doubled by 2009 to 835.000. In 2005, around 64 percent of new comers were first generations attending higher education (Arellano 2011). The higher education boom brought with it hope for Chilean families to sent their children to college for the very first time, but it also created anxiety because this expensive education became a minimum requirement for an increasing share of the population. This is reflected on the fact that since 2003 onwards, people from middle and low income groups increasingly feel that their educational level is not sufficient to "freely choose what they want to do", as the last Human Development Report showed (PNUD 2012). This marks a break with the previous years, where education was seen as the main means for moving up in the social ladder.

Higher levels of enrollment at college went in parallel with an increase in public resources in the form of tuition scholarships and loans, which reached more than 360.000 undergraduates in 2010. Anyhow, rising spending in education has been insufficient in the wake of such expansion if one considers that the contribution "per student" in 2009 is lower than in 1990 (see chart below). To understand how this shaped the financialization of consumption, one has to look into the specific dynamics of the system.

[138] The enrollment of public schools between 2000 and 2006 diminished in 13% (186,000 students), while subsidized schools increased in 38% (386,000 students) (Paredes/Pinto 2009).

Figure 62: Average Annual Expenditure per Student in all Higher Education Institutions (thousands of 2009 Chilean pesos)



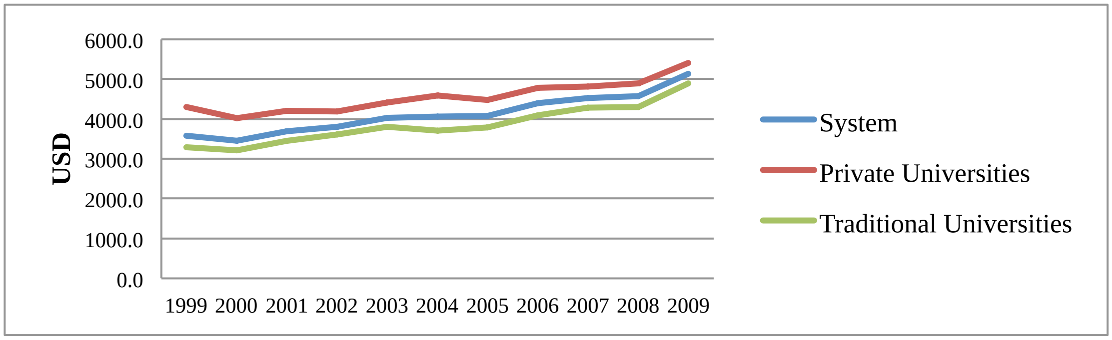
Source: Data taken from Arellano (2011).

Higher education in Chile is paid but segmented into a two tier system: “Traditional Universities” that existed prior to privatizations and that receive government subsidies, and entirely “Private Universities”. This difference matters because “Traditional Universities” are more prestigious since they have historically demanded higher scores at the standardized “university selection exam” (PSU) (probably because historically speaking only a few used to get into the university). This conversely means that, given that educational achievement is highly correlated with purchasing power, students coming from subsidized and public schools are incorporated with less frequency into these universities in comparison with those coming from the private system (only a 10% for public schools, 13% for subsidized and 31% for private schools). Thus, for example, in 2011 students from the bottom income quintiles still attend in a greater proportion “Private” universities (33.4% of the total) in comparison to the share of poorer students that attend the “Traditional” ones (28,2% of the total) (Escobar/Eguiguren/Sánchez 2012), even though financialization policies have mitigated the difference over the last years. It is important to consider this because most benefits (best scholarships and credit conditions) are granted by “Traditional universities”, to what one has to add that “private” universities have been historically more expensive than the traditional ones because they meet an increasing demand of students that do not meet the academic requirements to get into a more prestigious “Traditional university”.

What follows from the above stated is that i) the segmentation of the access to higher education makes more likely that families that could not send their children to quality schools will bear higher burdens in the future (less benefits and higher prices); and ii) that to a great extent the expansion of higher education had to be financed mainly by families with their future incomes in the form of educational loans.

This situation, in turn, triggers a perverse mechanism: in a context of generalized expansion of college enrollment, Chilean families from all socio-economic groups will be increasingly willing to spend an important share of their budget to finance their children´s education and catch-up with more demanding labor markets. This results in that prices also rise systematically, reproducing again existing inequalities and fueling the "bidding war" for higher education. As the char below shows, only between 1999 and 2003, when the boom began, "traditional universities" raised their fees 23% in real terms, although they still remained cheaper than private ones. In the overall picture, between 1999 and 2009 the average annual college fee increased 38.25% in real terms (Salas 2011).

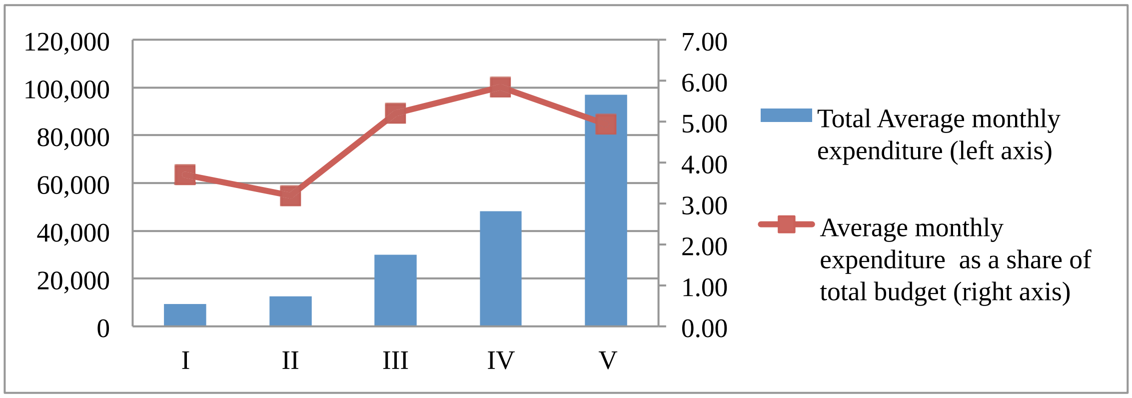
Figure 63: Evolution of Weighted Average Annual Fees in the Higher Educational System, Prices of 2010 (converted to average USD of 2010)



Source: Data taken from Salas (2011)

The "battle for education" had different effects on the budgets and strategies that many students and families would follow. Although expenditures on higher education experienced an important rise throughout all income groups, the educational "arms race" or "bidding war" seems to be a special burden for families in the middle of the income distribution. As the chart below shows, compared to the richest 20%, families from the third and fourth income quintiles allocate higher shares of their expenditures to higher education, although in total terms it is still considerable lower than the expenditures of the richest group. In other words, middle income families (not to mention the poorest) make huge financial efforts to finance professional careers, but still fall by far behind the richest families that are able to spend much more without sacrificing other expenditures.

Figure 64: Average Monthly Expenditures on Higher Education by Income Quintile, 2011/2012



Source: Data from the Household Budget Survey (EPS) 2011/2012.

This overall logic sheds light on why families in Chile have a preference for buying things on credit: educational "bidding wars" create a situation where many middle-class families, the driving force of consumer debts, experience important "budget gaps" once they have to cover educational expenses, and diminish their "discretionary" income. This leaves many with no other options than acquiring consumer debts in order to perform people's class identities and carry out their life-projects (also more demanding) by buying home appliances (decorating or improving home), dealing with their social relations (making gifts) or facing emergencies. This is a clear mechanism that explains how standards of living expand at a faster pace than wages and demand increasing financial effort to spend on "positional goods" that do not only reflect status (as a luxury car would do), but translate into real opportunities or disadvantages to succeed in the "position-taking struggles".

However, the situation depicted above does not account for the important share of families that can simply not deviate resources to pay for the education of their children (for which creating "budget gaps" is not an option). Because of low wages, the increasing pressures to acquire more education at rising prices implies for the majority of first generation of students –mostly from the middle and bottom of the income distribution- that there is no other way to obtain a professional degree than acquiring a debt. As sketched in chapter 4, an increasing number of students will apply for student loans granted by banks after the new policies of financialization moved towards the private sector to create "consumers" for the newly created educational markets in the 2000´s.

This seems to affect families´ overall financial practices. According to a survey conducted by the National Institute of Youth (INJUV) and the Consumer´ Protection Agency (SERNAC)[139] with

[139] Available at: http://www.sernac.cl/wp-content/uploads/2014/08/Endeudamiento-Resumen-Encuesta-Telef%C3%B3nica-2013.pdf

individuals aged between 18 and 29, almost half of young individuals in Chile had a student loan (43%). Moreover, these individuals not only acquired student loans but also had department store credit card debts (39%) or consumer loans with banks (30%), being most of them responsible for paying them back (76%). The increasing financialization of youth seems to be more driven by a combination between their precarious financial situation and their new educational aspirations rather than lavish patterns of consumption. As the survey shows, among those that have had debts, 32% argue it was to face an emergency and 25% declared that it was to pay for their education, which confirms the idea that educational costs create "budget gaps" for many of the families bearing this burden. Indeed, most interviewees declare that most of their expenses are related to alimentary necessities in the first place, followed by education, transportation and basic services, and only 33% of them declare that credits give them some "independence". As a corollary, the pressures these individuals have on their budgets prevent many of them from saving, considering that 20% declare not to have any leftovers and 13% use eventual remainders to pay-off debts. Only 44% can save when possible, which are meant to be used to buy a home (33%), face emergencies (30%) or pursue studies (13%), these savings being used to go on vacation (11%) or for entertainment purposes (7%).

Likewise, many families are currently struggling with these debts. According to the same survey, 24% of those who have had debts have also been in default and 23% of them have renegotiated their debts. Nowadays, as a report of the Bank and Financial Institution Regulatory Agency (SBIF) established, at least 8.6% of indebted students under age 25, whose debts average around USD 7,000, are already in default.

Summing up, as the picture below shows, the "battle for education" is a clear mechanism driving the financialization of consumption among Chilean families and the youth. It shows that even though the Chilean government made important investments in education at all levels, the combination of income inequality and commodification triggered spirals of competitive expenditures on an inconspicuous but "positional good", education. In this new scenario, where higher education is no longer a clear vehicle for social mobility as it was in the past, Chilean families will experience a new source of insecurity: since pursuing a college degree will become a minimum requirement, families´ abilities to catch up with the new standards of an open and more demanding economy –and to survive in the new "position-taking struggles"- is subjected to available incomes. This ultimately puts an important pressure on the budget of families, which are either willing to spend a higher share of their incomes on expensive tuition fees and see their discretionary incomes diminished (budget gap), or have no other option than postpone these expenses on time unless they acquire student loans.

Chapter 12 The fear of "being left aside": Medical Bills, Retirement and Financialization

The commodification of the Chilean health and pension system also created important pressures on the budget of Chilean families and became real threats to the materialization of the life-project, although they work in different ways. Unlike education, which is a positional good, both health and retirement plans work under the logic of "insurance", according to which people sacrifice the present (setting aside money) in the sake of the future (retirement or eventual health related problems).

One already knows that low wages and increasing pressures to consume –for emulative or defensive purposes- work in the opposite direction of "economic savings", i.e. setting aside money on a monthly basis for emergencies, retirement or health insurances. But unlike a safety-net provided by ordinary savings, health insurance and retirement plans are i) meant to be compulsory forms of savings, which, in the case of workers with formal contracts, are discounted from their salaries. And ii) cannot be used in case of unexpected expenditures or income shocks. In this chapter I address the extent to which the commodification of these social services has contributed to the financialization of consumption.

12.1 Health and Debt

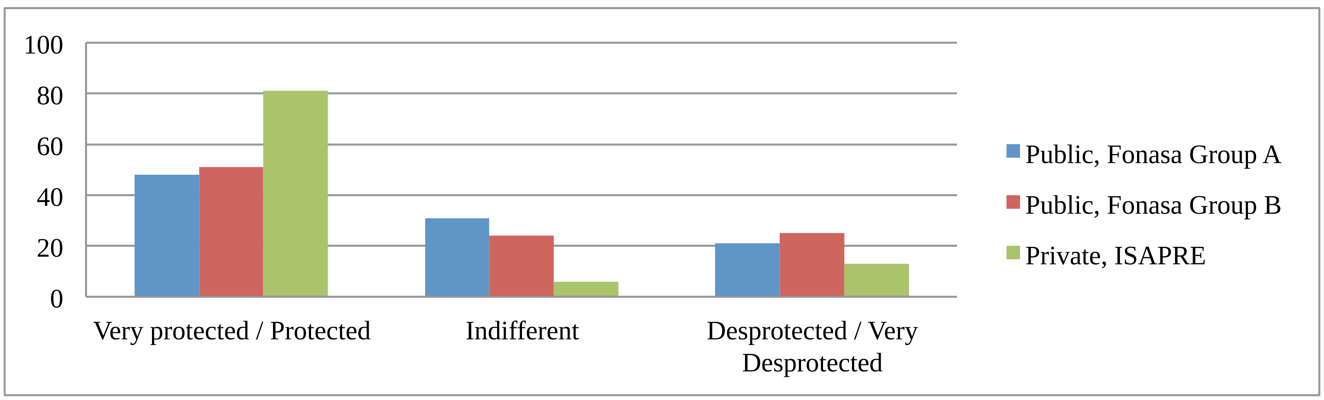
The health system in Chile has had paradoxical results over the last twenty five years. On the one hand, the Chilean population improved considerably its health and sanitary conditions from 1970´s (Arellano 2011). General and Infant mortality decreased significantly, while life-expectacy rose and fertility was progressively controlled (PNUD 1998). On the other hand, this improvement found counteracting trends in the *dualization* of the system, where the quality and opportunity of services provided is being conditioned according to people´s ability to buy private insurances, while at the same time households have to face rising prices.

As already explained in chapter 4, the health system in Chile was divided by Pinochet´s economists into a two-tier system: a public sector that pools together and administers the mandatory contribution of workers (7% of their income), distributing the benefits proportionally according to three income segments (A, B and C); and a private sector made up of insurance companies that also own clinics and offers a wide range of health plans.

As with education, the dualization of the health system had important effects on the budget of households. While the public system is, in principle open to all citizens, the private system has more restrictive policies that discriminate by excluding certain pre-existing illnesses, as well as certain vulnerable groups such as elderly people and women of child bearing age (price discrimination). More importantly, it created a two tier system of public and private provision that competes with each other, which already in the middle term produced an important segmentation between those affluent families that can afford to participate in the new market for health insurance, and a majority that has only access to a much more saturated public system (Barrientos 2002).

Such *dualization* became an enormous source of anxiety for Chilean families. Already in 1998 the Human Development Report in Chile, for example, reported that while more than 80% of high income and ensured families were confident and very confident about receiving a timely and good attention in case of a minor health problem, those numbers decreased to around 40% in the middle strata and 25% in the bottom of the income distribution (PNUD 1998). This feeling continues until today, although it has improved. As a study conducted by a consulting firm for the Superintendence of Health in 2011 shows, Chileans systematically manifest a predilection towards the private system, which seems to offer a broader coverage in their health plans, higher comfort during hospitalization and better waiting times.[140] Accordingly, the feeling of protection is overwhelmingly higher for those affiliated to the private system, as the chart below shows.

Figure 65: Perception of Protection 2011 (Net %)



Source: Data from the Adimark-GfK survey, 2011.[141]

The reasons mentioned above explain why families are systematically willing to pay more and have insured themselves in the private system since its creation. According to data from the Ministry of Social Development, in 2011 only 37.2% of respondents that belong to the public system feel confident about getting a timely medical treatment, which rises to 72.6% in the case of those that have a private insurance.

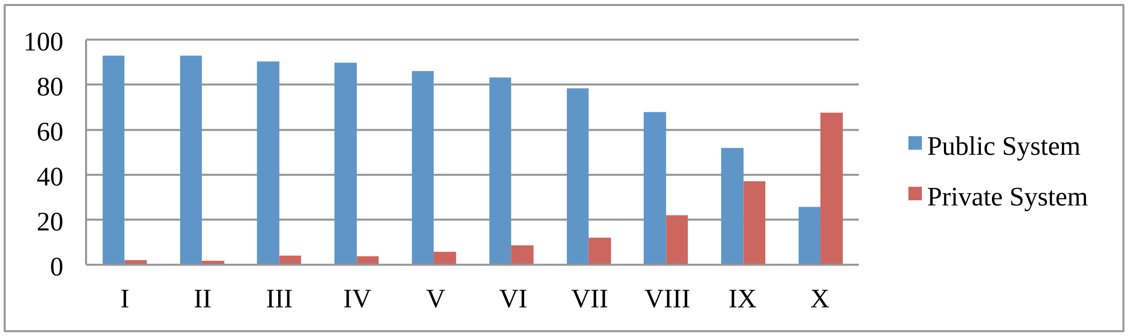
Moreover, the preference for the private system also stems from actual satisfaction with these different services. Thus, for example, while more than 20 percent of the population belonging to the

[140] The study is available at: http://www.supersalud.gob.cl/documentacion/569/w3-article-6953.html

[141] Available at: http://www.supersalud.gob.cl/documentacion/569/w3-article-6953.html

bottom 40% of the income distribution declared confronting problems with their medical attention (getting an appointment, paying for medicines and attention, difficult access, getting health care), the number for the richest 20% decreased to 9,73%.[142] In this scenario, being affiliated to a private ISAPRE is a source of status and achievement, just as it is to send your children to a private school, thus contributing to enlarge the list of *distinctive* goods that an average Chilean consumer has to handle.

Figure 66: Affiliation to the Public and Private Health System by Income Decile, 2013



Source: Data from Casen survey 2013

These are the reasons accounting for the increasing demand that private insurances faced over the last decades, and explain why the coverage of the private system rose from 1.33% of the population in 1982 to 15.99% in 1990, and 26.43% in 1996, when the private system reached its peak. Nowadays, one has witnessed that coverage of private insurance companies diminished because of an important reform made effective in 2005, which introduced more resources into the public system and made the system more attractive for middle-class families. Some of these families migrated back to the public system in the mid-2000s, but many would still prefer to be insured by a private company but cannot afford it; for them, as for most families, the private system is simply not an available option.

Furthermore, the costs of medical services also put an important burden on the shoulders of families. Even though many families receive medical assistance in public services, they still have to pay considerable sums of money for medical treatment and medicines. Thus, for example, among those covered by the public system, 48.1% declared that obtained free medicines in the last three months, 13.5% paid for some of them and 37.3% paid for all of them (the numbers in the private system are 6.8, 6.7 and 85.2%, respectively).[143]

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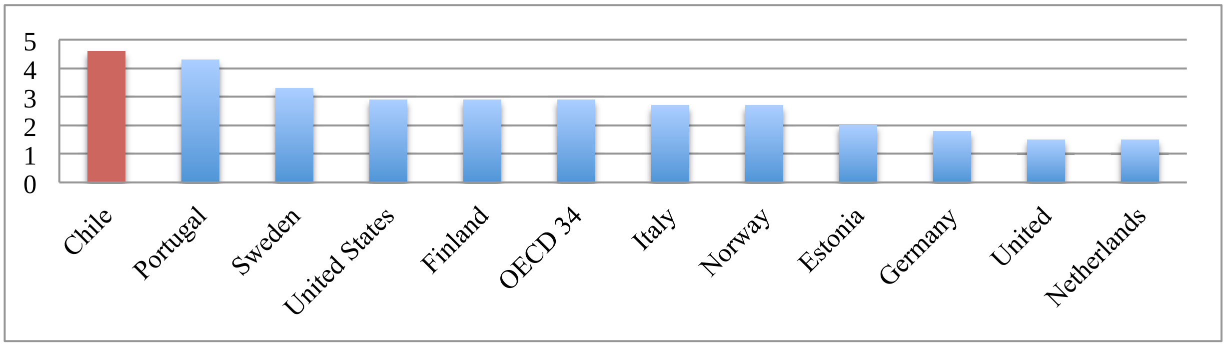
142 http://www.ministeriodesarrollosocial.gob.cl/ipos-2012/media/ipos_2012_pp_94-125.pdf

143 http://observatorio.ministeriodesarrollosocial.gob.cl/documentos/Casen2013_Salud.pdf

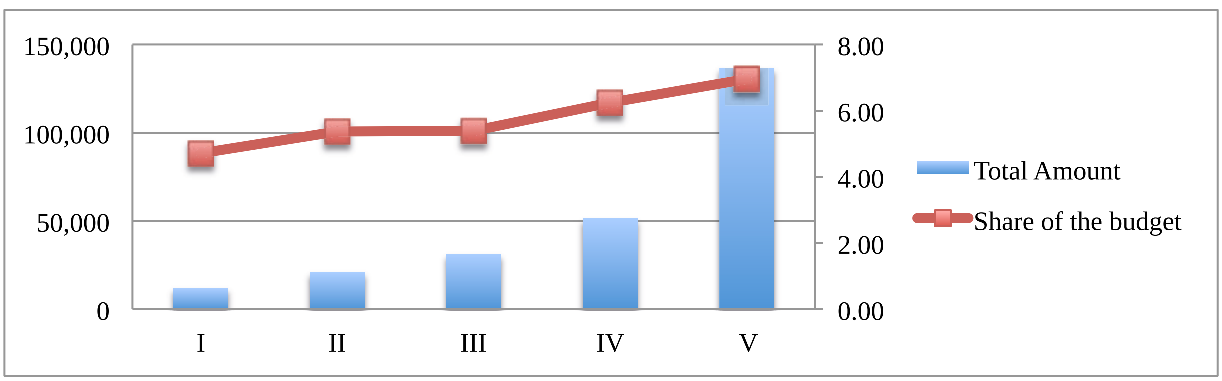
Figure 67: Out-of-pocket Medical Spending as a Share of Final Household Consumption, 2011 (selected countries)



Source: Data taken from Health at a Glance 2013[144]

In this context, Chilean families have seen a consistent rise in their medical bills during the last two decades, which is reflected on the average share of their budgets allocated to covering medical costs. If in 1987 an average household spent 3.95% of their monthly budget on medical attention, now in 2012 it has increased to 6.3% (Households Budget Survey 2011/2012). Moreover, even with the improvements of the public sector, Chile is the OECD country whose members bear the highest levels of out-of-pocket medical spending as a share of final consumption (together with México and Korea). Even worse, the out-of-pocket expenses of Chileans during 2010 was around USD 400, which corrected by purchasing power parity falls under the average of the OECD countries (to USD 160).[145]

Figure 68: Average Monthly Expenditures in Medical Services by Income Quintile 2011/2012



Source: Data from the EPF 2011/2012

[144] http://www.oecd.org/els/health-systems/Health-at-a-Glance-2013.pdf

[145] http://www.ministeriodesarrollosocial.gob.cl/ipos-2012/media/ipos_2012_pp_94-125.pdf

This of course, affects more significantly the middle and low-income populations, which even though are assisted by public services, spend almost the same share of their budgets as richer families. Nevertheless, as expected, in total terms these amounts are more than 10 times smaller for the poorest 20% of the population. Altogether, both rising medical bills and the dualization of the health system put a financial burden on Chilean households that use their discretionary incomes to either pay for medical bills while still bearing high levels of insecurity, or purchase more expensive private health insurances. These consumers might not use consumer debts to deal with medical emergencies (especially because coverage of public services has systematically improved for the non-rich), but as with education, dualization of the system and rising medical costs reduce their discretionary income and create "budget gaps". In this context, it becomes clear that the only way to catch up with more demanding standards of living and materialize the desired life-project is by taking consumer debts.

12.2 Retirement and Debts

Retired worked –and more broadly, elderly people- became one of the last sources of profits for the financial industry in Chile. Contrary to economic theories of the life-cycle, according to which people in the late stages of life are expected to liquidate assets accumulated throughout the productive years, retired workers in Chile seem to be acquiring debts at a faster pace, especially during the last ten years. To understand how this was possible and the main features of this process, one has to look more generally into the current situation of retired workers in Chile, as well as the consolidation of new actors on the market.

The privatization of pension funds in Chile resulted in a direct boost of the financialization of consumption in different ways. The private pension fund is considered to represent the two faces of the Chilean modernization. It created a huge capital market that largely benefited economic groups that consolidated after the financial crisis in the 1980´s.[146] In the period 1981-2006, workers´ contributions amounted to around $50 billion and AFPs received every third contributed dollar, while the other two thirds were lent to foreign and private domestic conglomerates (Riesco 2011b). By 1996, around 65% of the working force was covered either by the old system (4,9%), the AFPs (55%) or the Armed Forces pension scheme (PNUD 1998).

But the system has structural problems that had an important impact on the life of many, which are mainly related to the segmented coverage of the pension system and the actual benefits enjoyed by retired workers. According to a study conducted by Aguila et. Al (2010), the number of contributors grew at a rate of 3 percent between 1975 and 2005, while the employment rate grew by 2.7, which means that the Chilean economy has experienced only a moderate improvement in labor contracts. However, although

[146] According to Riesco (2011), the mass of contributors grew at a 6.5% annual average rate from 1990 to 2006.

the coverage grew in the period, workers now experience higher levels of work rotation, which means that behind the relatively stable 55% of ensured workers, there is an important amount of individuals that contribute in an interrupted fashion (Berstein et. Al 2005). The self-employed worker, on the other hand, may have a precarious future since only 7% of them have retirement plans in the pension system and they represent around 30 percent of the working force.

In general, the structure of the contractual situation of the labor force has remained stable between 1980 and 2001. Self-employed workers reach on average a 18,4% of the labor force and between 1996 and 2005 only a 4.1% contributed to the pension system, which means that approximately 17.7% do not make contributions whatosoever. Among the rest of occupied workers, on the other hand, between 1980 and 2001 71% and 11.1% are employees with and without work contract, respectively. Altogether, this means that in that period around 30% of occupied workers did not make contributions in a given month (Berstein et. Al 2005).

These structural problems of the new pension system came up after the 2000´s when it became clear that retired workers affiliated to the private system underwent an important drop in income that in many cases leads to poverty. Thus for example, estimates in 2011 established that if workers that started contributing the private system since its creation in 1981 retire in 2013, around 60% of them would receive less than a minimum wage (Riesco 2011b; Riesco 2011a).

As a result, now one witnesses that for the majority of workers that are not able to save enough money during their working life, retirement means a drastic drop in income, which coincides with the stage in life where expenditures rise. Data from the 2010 “National Survey of Quality of Life in Old Age” help us grasp the situation of most pensioners.

To start with, most incomes of individuals in age of retirement come from a pension (78.2%), an important share receives subsidies (40.3%), while some of them work (30.8%) and one fifth receives support from their relatives (19.5%). In 2010, only a few of them had private health insurance with an ISAPRE (6.1%), while the big majority belonged to the public sector (85.6%). In this scenario, these pensioners perceive that their economic situation is less satisfactory than all other dimensions. Thus for example, while only 52.6 considered their economic needs adequately satisfied in 2010; other needs seem to be more adequately met, such as health (65.1%), alimentation, affection (77.7%) or housing (79.7%). This represents an important improvement with regard to the critical year of 2007, where only 39% declared that their economic needs were adequately satisfied, but it is still a very big share of unsatisfied people in their less productive -though expensive- years.

That is why 25% of those in age of retirement (over 65 for men and 60 for women) keep working for a salary; only 19% says that their incomes allow them to live; 55% considers that it is “just in the limits”, and 26% feels that it is simply “not enough” (which in 2007 reached 37%). This happens not only because pensions are usually smaller than former incomes, but also because some expenditures increase in considerably ways, such as medical bills (PNUD 2012).

Moreover, since those individuals in age of retirement fall behind the median income in a greater extent than other groups, retired workers are more likely to be “relatively poor”, as defined in chapter 7. This means that even though the pensions of an important share of the population are above the poverty threshold, they do not prevent them from experiencing an important decline in their life quality. According to Pino (2011), the number of “Relatively poor” retired workers has been growing from 24.8% in 1996 to 48.4% in 2009.

This has important consequences for the financialization of these groups. In a context where income drops and expenses rise, credit becomes for many of them an important source of income. According to CASEN survey, for example, in 2009 half of the population over 65 had debts with department stores, followed by a 12.8% that had “social loans” issued by the so-called “Cajas” (Cajas de Compensación de Asignación Familiar). The latter have, indeed, become one of the most important actors driving the financialization of these groups, and deserve some attention.

These organizations traditionally administered workers´ social benefits (affiliated through a company or independently), and offer different services, such as tourist packages, or educational and consumer loans. In 1997, these organizations were allowed to administer the pensions of retired workers charging a 2% commission. Since they have access to their small by stable pensions every month, they have managed to lend money to retired workers without taking any risk, which is the reason behind their successful expansion in the past years. According to CASEN survey 2009, for instance, more than 80 percent of those that have “social loans” earn incomes between USD 150 and 400, approximately, which means that they barely receive the minimum wage. If one looks into the “National Survey of Quality of Life in Old Age”, 16.6% of individuals over 60 had debts with these institutions in 2007, which rose to 20.2% in 2010.

In general, different types of consumer credits held by heads of households over 60 are unevenly distributed across income groups (see table below). Most “social loans” are held by low and middle income consumers; department stores are more equally distributed among income groups; and bank loans and overdraft lines are concentrated among the richest 20% (especially bank credit cards).

The utilization of department store credit debts by these groups is not very different from an average household, where these are used to buy home appliances. In this case, the item “other purchases”, which might range from clothing to groceries, is considerably important (18.2%). The utilization of social loans, on the other hand, is more homogenously distributed among income groups, being used to buy home appliances (18%), medical treatments (17%) and making home improvements (22%). In this case, as one can expect, the item “medical bills” is considerably higher than in the case of the average household. Finally, Bank Loans, which concentrate on middle and high income groups, are used on many occasions by these households to pay other debts, which shows that an important share of higher income consumers over 60 years accessing these loans (11.4%), struggle in important ways with their debts.

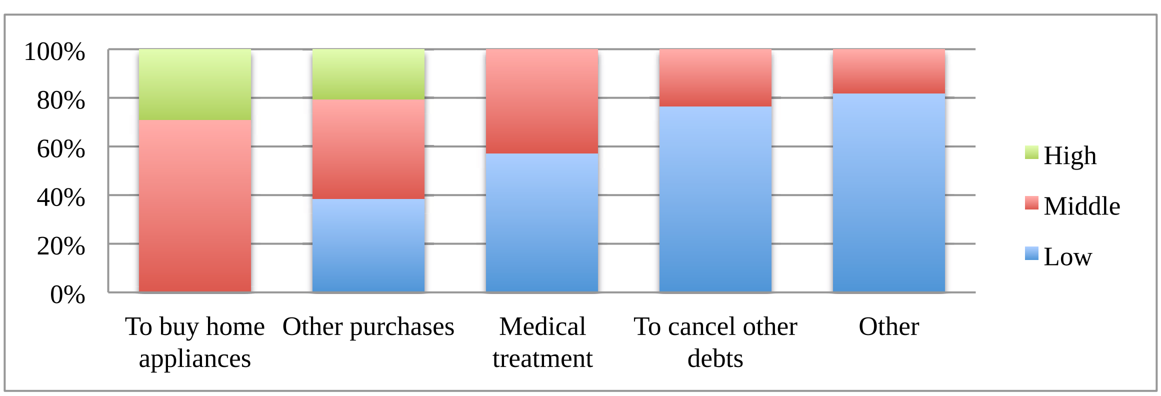
Figure 69: Utilization of Different Consumer Credits by Household Heads Over 60

	Department Store Credit Card	Social Loan	Bank Consumer Loan
Home appliances	66,26	18,58	8,35
Vehicles or other transportation means	1,29	1,03	6,24
Other purchases	18,27	1,03	9,22
Medical treatment	3,11	17,74	14,34
Cancelation of other debts	5,9	1,38	31,3
To finance an investment	0,84	11,96	6,96
Home Improvement	2,23	21,95	9,53
Other	1,29	4,03	13,19
No answer	0,82	22,3	0,86
Total share of heads of households over 60 with debt	32,76	10,46	11,45

Source: Data from EFH 2009

In any case, the ways these debts are put to work also differ considerably according to income groups. As the chart below shows, "social loans" used to finance medical treatment (17%) are concentrated on more than 80% of low income population, while those social loans used to buy home appliances (18.5%) are held mainly by middle and high income consumers; finally, nobody declares to buy home appliances with these credits among low income consumers.

Figure 70: Utilization of "Social Loan" by Income Group, Heads of Household over 60 (2009)



Source: Data from EFH 2009

In a different vein, an important reason behind the increasing financialization of retired workers has been social policies that aimed at helping poorer segments of elderly people. Since a big share of workers was never able to set aside part of their income for their retirement plan, the government subsidized the private pension funds by introducing a “basic solidary pension” (Pension Básica Solidaria) in 2008 for those workers that never contributed to the pension system (almost half minimum wage), and a “complementary contribution” (Aporte Previsional Solidario) for those that contributed but their retirement plans still do not reach a minimum (that only in 2011 was established in around the minimum wage). Following the logic of targeted social spending, these new pensions are meant to help the 60% of poorest families and include a special bonus “per child” that aims at reducing gender inequalities among pensioners (while the middle-class were again left on their own). As a side consequence, this lean but stable pension-subsidy ended up subsidizing the risk-profile of impoverished retired workers that are increasingly becoming indebted. This is something that both department stores and “Cajas” learnt how to exploit in order to financialize a population that was previously excluded from the financial system, but that required an urgent extension of their incomes.

The financialization of this group requires further research, and it is a very interesting scenario to understand how people struggle to protect their lifestyles and standards of living in the wake of a permanent drop in income. In this case, the lack of protective institutions directly leads to the financialization of a group of people that, although unproductive, become a clear target for lenders that seek to expand their sales (department stores) or just capitalize into their privileged position (“Cajas”). In the end, financialization grows io the verge of institutional vacuums that leave the elderly on their own, or it is indirectly fostered by targeted social policies. The financialization of this group is directly related to the privatization of risk. Their status anxiety stems not only from the desire to participate in the benefits of growth, but from the fear of “being left aside”.

CHAPTER 13 THE RISK OF CONSUMER CREDIT

The last part of this dissertation is concerned about the way credit can itself become a source of risk and insecurity, and, ultimately, a source of “status anxiety” by itself. There are several ways to tackle this issue. Since the bankruptcy law in Chile was only passed in 2014, there are no reliable data on the causes of financial collapse, and qualitative research has not characterized the process of bankruptcy and recovery. From the analysis of the EFH surveys conducted by economists, one knows that the “risk of debt”, at least at the aggregated level, stems mainly from the risk of losing one´s job.

Nevertheless, one still knows too little about the way Chilean families manage their finances, take risks, make calculations and handle their debts. As seen in the credit-stories formerly depicted, families can get into spirals of debts without undergoing a drop in incomes. This is the case of the "income-spike effect" or the "Diderot effect" where process of upward mobility can well lead to over indebtedness. Pursuing the idea that over-indebtedness is generated in practices, I seek to complement the structural analysis of indebtedness in the following sections with a focus on credit-trajectories and practices that people carry out. In particular, I depict two "dangerous practices" and processes that lead people to become over-indebted; then I move on to characterize how these practices are influenced by particular ways of making calculations.

13.1 Turning Debts into Capital

Personal loans, mostly issued by banks, are in many cases used to start small businesses or to support other types of intangible investments, such as education. In some cases, credit represents a source of hope: a vehicle for increasing social mobility, consolidating one´s position or recovering after a crisis. This way of mobilizing debts might well be the consequence of "position-taking struggles" and "bidding war", against which many families will seek to "strike back" and pin their hopes on their managerial and entrepreneurial spirit by "turning debts into capital".

This way of using consumer credits goes in line with the entrepreneurial and risk-taking attitude described in the *everyday life of finances* literature (French/Leyshon/Wainwright 2011), although not necessarily with products designed for that purpose. As suggested in chapter 1, such literature is less concerned about explaining the rising indebtedness of households and more interested in showing how the expansion of finance gives rise to a particular financialized culture (Hall 2011; Coppock 2013). From this viewpoint, the democratization of finance is also understood as a political project promoted by conventional economic theories (Palley 2007), although it has different consequences. In this sense, consumers are demanded to develop particular skills to manage financial products and acquire a more favorable attitude towards risk (Erturk et al. 2007; Martin 2008; Langley 2007).[147]

This is what one finds when one looks into the practice of turning debts into capital, although one knows now that it has more to do with the attempt of people for positioning themselves in an increasingly competitive environment, as well as securing their lifestyles and carrying their aspirations and life-projects. Rather than being a mere effect of financialization processes, it seems to be a consequence of the privatization of risk and the "status anxiety of Chilean families.

[147] Along these lines, many authors in this field look for inspiration in Foucault´s theory of 'governmentality' to show how financial discourses and practices discipline households by demanding a transformation of people´s subjectivities towards a more favorable attitude towards of risks and sense of financial responsibility (Marron 2013; Langley 2013; Martin 2002).

Many people use consumer debts in this sense. After going through a financial collapse, for example, Mónica (our third credit-story in chapter 9) would no longer take out credit for decorating her home or *darse gustos* (give gifts to oneself), but she did use a bank loan to pay for an English course for one of her sons. Similarly, Osvaldo, now in his sixties, obtained his first consumer loan from a car dealer after a marriage breakdown in order to start his own business as a taxi driver; later on, he would take bank loans to re-invest in his already established business and eventually to purchase a new car. Turning debts into capital is seen as a much legitimate way of mobilizing credits, demarcating this mode of acquiring debts from consumerist purposes (as with Mónica). This goes in line with the fact that educated heads of households in Chile tend to justify their credit decisions on the basis of some sense of investment (van Bavel/Sell-Trujillo 2003), though this is also a practice one finds among less educated workers.

Waldo´s credit-story is a case in point, where credits were rationally capitalized to improve his economic situation, but unforeseeable risks turn debts into a real 'nightmare'. He had a seasonal job at a construction project in Santiago. Although he had improved his situation in comparison to his former position at a warehouse, he wanted to achieve economic independence. With the help of a consumer loan issued by the same bank from which he had obtained a mortgage to buy his small suburban condo, Waldo was able to start a side business, improve his economic situation and become less exposed to the risks of seasonal construction work. The idea came from a former colleague, who had quit the warehouse job to start a small "Logistics Company" that offers transportation services to construction companies. If one has the proper contacts with the industry, the business is simple: buy a truck, load it up with construction materials, and pay someone to drive it. This was very appealing for Waldo: his friend already had ten trucks working for him and had contacts with key people at the same construction project where Waldo was working. To some extent, comparing himself to a successful entrepreneur that he considered as equal triggered Waldo´s "status anxiety", so he decided to start a new business.

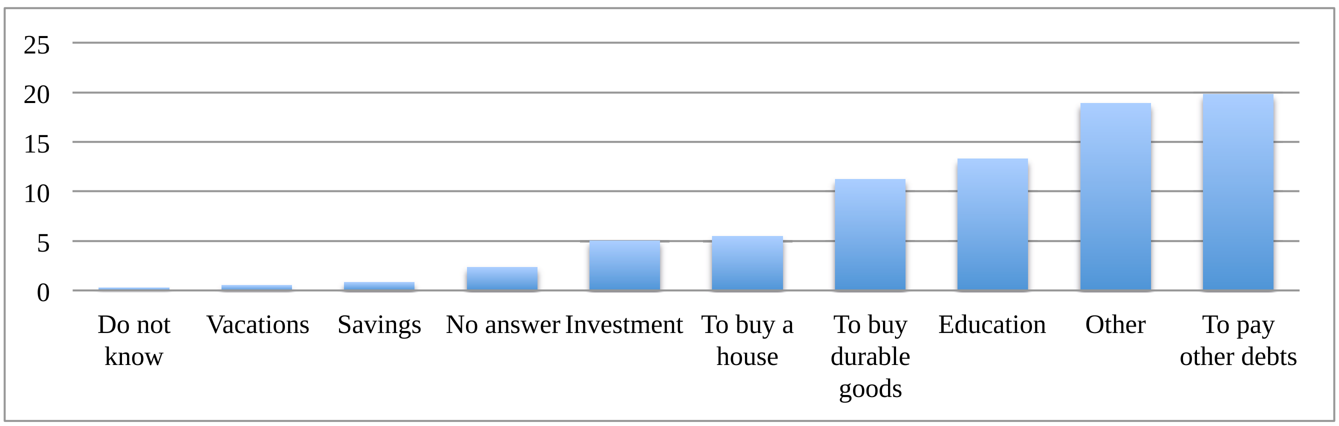
So Waldo decided to take a \$6000 consumer loan with the bank to buy a \$10000 second-hand truck. He received the remaining \$4000 from his father-in-law, who took a consumer credit loan with the department store, Falabella. The idea was to pay off the debt on the truck as soon as possible, so they decided to pay a higher level of installments at \$300 per month. The business worked quite well at least for a year, accruing around \$2000 per month, after the costs of gas and paying the driver. It was a time of prosperity for Waldo and his family, who managed to save some money to create a safety net and to reinvest in the business. But in the second year after starting the business, one of the drivers stole some construction materials. Waldo´s contract was canceled and he had to pay for the losses. Then the spiral of debts began, in which savings were used to pay for the stolen materials, while the bank debt had to continue to be paid even though his income was reduced to its former levels. His bank overdraft was automatically withdrawn when he could not pay the mortgage on time, which became an unbearable burden for Waldo´s family.

The situation got even worse when the "construction project" finished and his unemployment insurance was not designed to cover seasonal workers. In this scenario, the institutional vacuum of labor regulations turned his debts into a real nightmare. By the time of the interview, after two years of struggling to keep his home and trying to pay all his debts, Waldo was advised by a legal clinic that specialized in helping heavily-indebted consumers overcome debt-traps; such law clinics are parasite businesses that have emerged from the vacuum of consumer protection laws in Chile.

13.2 '*BICICLETEAR*' OR PAYING DEBTS WITH DEBTS

Paying-off debts is a very common way of acquiring more debts and becoming over-indebted in Chile. For instance, one knows that the rise of debt to income ratio between 2007 and 2011 (crisis in between) was mainly due to a drop in income, but for the 29% people that sought an increase in their debts, almost 20% argued that the reason behind was paying other debts (chart below).[148]

Figure 71: What Motive is Behind the Increase in Your Debts Since 2007?



Source: Data from the EFH 2011/2012

This relates to a very common and dangerous practice carried out by Chilean consumers known as *bicicletear*, or literally something like 'biking' or 'pedaling' debts. This is similar to the common expression of 'juggling'. 'Juggling' debts –also used in Chile- is a way of describing how consumers use credits to deal with economic commitments when they have become a heavy burden, which has been also documented in other social settings (Guérin et al. 2014). But in Chile debtors usually refer to *bicicletear* when talking about the practice of using personal loans credits to pay other consumer debts. Juggling might well apply to these cases, but it is more broadly used to refer to all types of financial commitments. A few examples clarify this distinction.

[148] In the EFH 2011/2012, 19% declared that their debts diminished and 35% that they did not change.

As Luz says when explaining how she went through a period of economic constraints years ago ‘What happened is that at that time I ‘bicicleteaba’ and ‘bicicleteaba’ [used to bike and bike] the other one. Because I had some trouble and stopped paying around six or eight mortgages [mortgage payments] in a row…’ In this case, unlike the aforementioned cases of Waldo and Mónica, she managed to get out of the situation by resorting to her personal networks ‘I decided to fix the situation very fast and I obtained a loan from my grandfather to solve the situation; I went on paying him…’.

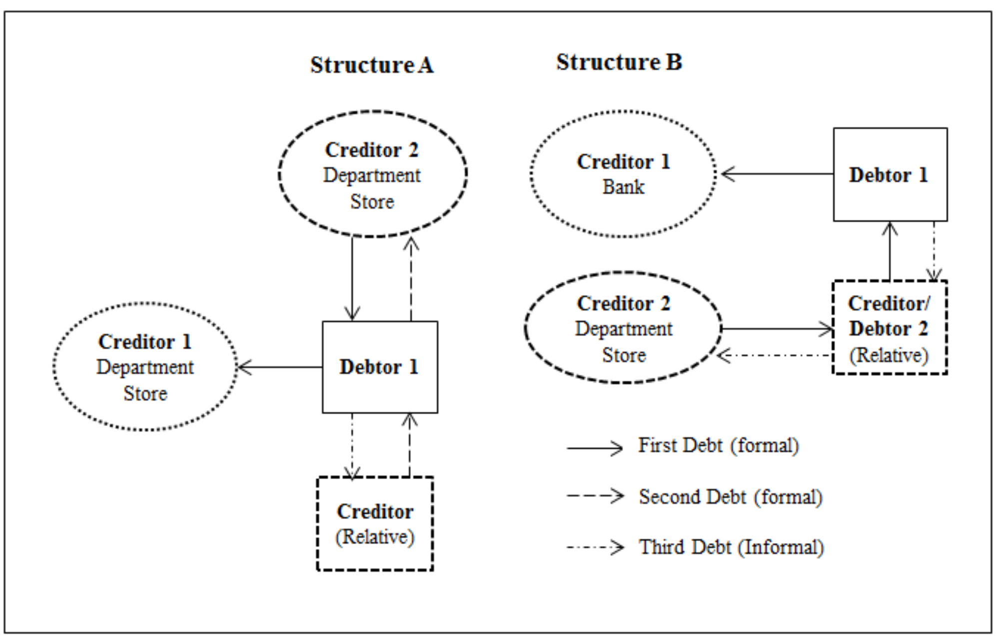
The metaphor of *bicicletear* describes a circular movement through which one obligation or debt is converted into another. Since people systematically circulate credit cards among friends and relatives, the metaphor is meant to imply some risk of borrowing to pay other debts. The whole family or the consumer is pedaling the bicycle, and as long as resources are constantly put in motion to pay one´s debts on time, the ride will continue; but if one loses coordination or is exhausted and not able to keep ‘pedaling’, the bike will fall and the fall down could really hurt. In this sense, the metaphor could be also understood as a way of ‘buying time’ in order to postpone default by creating another debt in the hope of financial recovery in a future time.

Elizabeth´s credit story illustrates the practice of Bicicletear and ‘buying time’. By the time of the interview, Elizabeth had three department store credit cards -all of them with around $2000 balance, much higher than the $400 average- but only one consumer debt with a bank, which she was using to pay off other debts. This was the result of a bad experience in accumulating debts and an episode of depression she suffered. The story with consumer credit started for Elizabeth a couple of years ago. By then, she had at least seven credit cards from different department stores, which she had accumulated throughout the years. She never formally asked for a credit, but they had been offered to her and she just accepted them. The first credit card had been in her hands for at least twenty years, since the early nineties when she started working.

According to her, she used to spend a lot of time at the shopping mall ‘Arauco’, at least every weekend, and regularly bought clothing, footwear and homeware. She used to go to the shopping mall just to check out sales and offers and eat something with her daughters; but she always ended up ‘buying for buying’ because according to her, it was very easy to get tempted. Besides that, she used some of these credit cards to buy groceries on a regular basis. Elizabeth estimated how much she could spend, although she never had a clear amount. However, at some point she lost control over her debts and started making only the minimum payments. She tried several times to pay everything and get rid of the credit cards, for which she started taking cash withdrawals from department stores to pay off existing debts. But she ended up using them again. At some point, out of despair she borrowed $22000 from the bank to ‘close’ those credit cards. That was the point when she decided that she had to tell her husband about the situation. Elizabeth´s husband took control over the finances and he is now organizing the repayment of their debts and the household budgeting. Hence, Elizabeth spends most of her salary sticking to the payment schedule that her husband settled for her to get out of these debts. In any case, they still have three of these cards and make use of them in a very rationed fashion.

The practice of *Bicicletear* has two important features. Firstly, as a way of 'buying time', bicicletear is mostly an unintended consequence of using personal loans for different purposes. In this sense, consumer credits might help people cope with financial risk and instability, although it increases the likelihood of failure. Secondly, bicicletear often connects individuals and families by creating new debt relations. Thus, for example, sometimes -as with Luz and Elizabeth- formal and informal debts circulate in the hands of one individual whose debts multiply (structure A, figure below). A second debt is acquired with a department store (creditor 2) to pay for the debt of another department store (creditor 1). The former, conversely, is paid with a third informal debt acquired with a last resort creditor, usually a relative. But in other cases –like Waldo´s story- *bicicletear* connects with the debts of a third person to acquire formal debts via department stores or banks to help someone else pay for her debts (structure B). In this case, the debtor asks a relative or another person to acquire a formal debt from another institution. This person acquires a new debt and becomes both an informal creditor with a relative, and a formal debtor with a department store. In both cases, there is a *financial ecology* –to use the concept of Leyshon et al. (2004)- that emerges from the circulation of debts.

Figure 72: *Bicicletear* and the Circulation of Debts



Source: Based on qualitative fieldwork

Such a dangerous financial practice raises the question whether the risk of debts originates in the misunderstanding of how credit –especially revolving credit- works, lack of calculation abilities or practical skills. In the case of Waldo´s story above mentioned, there was a mix between not understanding the logic of minimum payments and institutional vacuums created by lack of work protection. But how do Chileans make calculations, keep track of their debts and handle their financial obligations?

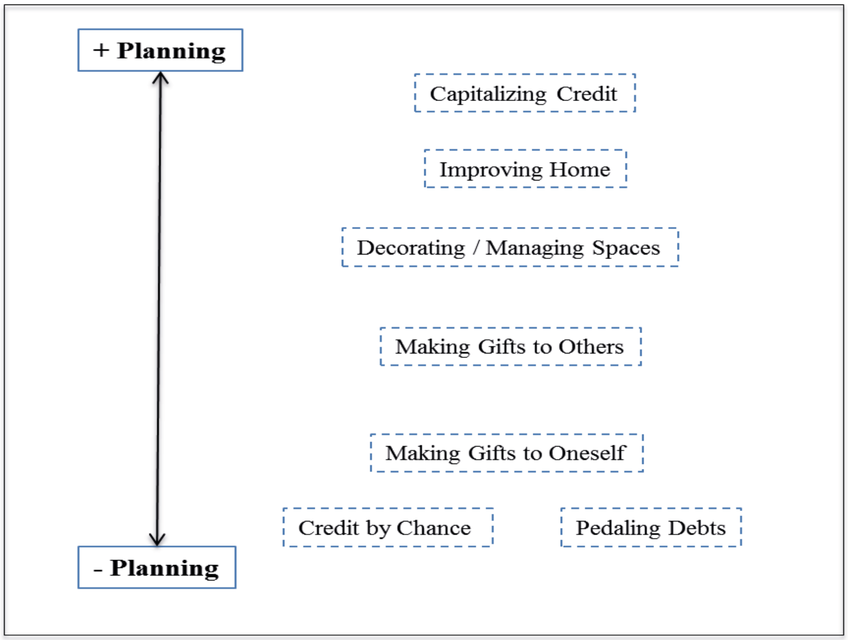
13.3 Managing Debts and Making Calculations: Wrong Perception or Misguided Practices?

Handling debts can be a very demanding task because financial products are very complex and hardly understood by consumers. As seen in credit-stories previously sketched, the mismanagement of these credits can turn them into a "nightmare" or "bad debts"; but handling debts on time can help neutralize its moral connotations and normalize them as an everyday life affair; furthermore, strategically lending one´s credit card to others might change the nature of credit itself by enhancing the risk score.

As already learned, there are several ways of using consumer credits. Interviews show that people systematically plan, trace alternative courses of action and make economic calculations when taking a bank consumer loan. Bank consumer loans have to be solicited; they require some planning and the capacity of imagining possible futures. Since on average the amounts of these credits are considerably higher than those of department stores, they also require a more or less clear idea of the amount that will be solicited (*tirar el lápiz*, to use Diego´s expression), how the money will be spent or allocated, and how to deal with future payments (in any case, one has also learnt that financial practices that imply some planning –turning debts into capital- migh well be dangerous if things do not go as expected).

But this is not necessarily the case of department stores credit cards. As we have seen, most people get their credit card for the first time when walking through a department store, a shopping mall or even public places. They feel tempted with the alternative of gaining economic independence or buying the irresistible and convenient sale that it is only available through a credit card. But how do Chilean families manage these consumer debts?

Figure 73: Utilization of Consumer Credit and Financial Planning



Source: Based on qualitative fieldwork

Interviews show that calculations do not necessarily play the central role one would expect. In fact, most consumers rather think of debts and manage their finances based on practical skills. People using revolving credit do not know how to calculate compound interests; they barely know how much interest rates are exactly charged and what the cost of doing minimum payments is. But they are quite aware of the fact that buying in more installments is more expensive; that lenders severely punish defaults and that they would even “encourage you” to default in order to make more profits. Some of them act by fear of being on the “black list” of Chile´s Credit Bureau, Dicom; and others would reject the idea of paying extra money due to one´s lack of responsibility. In any case, good intentions, fear or a sense of responsibility might end in a very poor performance if debts are underestimated.

The under-estimation of debts might be an important problem behind the over-indebtedness of some households, which are not always aware of how much they owe. As a survey conducted by the Universidad Central with workers in Santiago shows, only 42.6% of indebted interviewees were sure about being able to pay back their debts, 30.2% thought that they can pay, while 4.2% and 1% had doubts or believed that they would not be able to pay them back. In relation to the subjective perception of debts, the survey also shows that 26.8% of respondents feel confident, and 37% is “calm” with their debts. Moreover, 75.1% declares to know the total amount of their debts, 19.5% have a fuzzy idea, and 1.8% says that they have no idea. By the same token, according to a survey conducted by the Universidad de Talca in the Region of "Maule" (CEOC-UTalca), 22% of indebted interviewees felt insecure regarding their capacity to pay back their debts. In this survey, 72% reported to know exactly the amount of their debts, while 21% have “an idea” and 7% do “not really know”.

In order to grasp the importance of the gap between people´s perceptions and their actual levels of debts, one can use the EFH to conduct a small exercise. Following the recommendations of the Central Bank, one can build a qualitative variable with the “total debt monthly service” (i.e. the share of income that people allocate to pay debts in a monthly basis) with three categories. One can consider a ratio of 20% as a small level of debt, between 20 and 50% as a medium level, and a ratio over 50% as a high level. With this, it is possible to assess the gap between the perception that consumers have with regard to their expenditures (whether they declare that their expenditures are smaller, equal or higher than their incomes), and actual debts measured as the monthly debt service. The results are showed in the table below.

Table 13: Perception of Financial Burden (row) and Actual Total Monthly Debt Service

	Low (up to 20%)	Medium (between 20 and 50%)	High (more than 50%)	Without Debts	Total
Expenditures > Income (46.0%)	28.36	19.93	17.37	34.34	100%
Expenditures = Income (37.2%)	20.7	12.7	9.43	57.17	100%
Expenditures < Income (15.8%)	39.57	16.44	6.17	37.82	100%
Does not know	4.55	0.97	5.43	89.05	100%
Does not answer	14.7	3.6	0	82.23	100%

Source: Data from the EFH 2009

It is worth noticing that there seems to be an important gap between people´s perception and their observed debt to monthly income ratios. Thus, for example, those individuals that consider that their incomes equal their expenditures (37.2%), 12.7% of them have a medium level of indebtedness and 9.4% have a an important financial burden. Even more striking, from those that declare that their expenditures are smaller than their incomes (15.8%), only 37.8% do not have debts, 16.4% have a medium level of indebtedness and 6.1% have a high total debt to monthly income ratio.

This raises some questions. As a matter of fact, the financial business in Chile is successful because most Chileans actually pay their debts. In this respect, one already knows that Chileans learned how to deal with their debts, especially with the installments of department stores credit cards, and that this learning process might well have been very problematic. But how do consumers make calculations if many of them do not even know how much they owe? Does that mean that they cannot handle their debts? A first answer to these questions is that i) for many consumers having a debt does not mean spending more than their incomes, and in this spirit some consumers save while at the same time hold debts. And ii) that having a debt with a financial institutions does not necessarily mean that one is "indebted". According to the qualitative analysis, "being indebted" is rather what happens when one cannot pay one´s debts. Another option, explored here, is that this gap is explained by the fact that people consider their installments as part of their normal expenditures. Two practices help us shed light into the extent to which consumers rely on cognitive abilities or practical skills to handle their debts.

13.3.1 Reducing Uncertainty: the Monthly Target Heuristic

A remarkable phenomenon in the financial industry in Chile is that people normally are not aware of the whole debt they acquire, but are only concerned about the monthly amounts they can pay. Indeed, as the UCEN survey above mentioned showed, the awareness of the monthly debt burden is higher than the awareness of total levels of debts: 86.78% of interviewees declared to know their monthly burden (in contrast to 75%), 9.73% has a fuzzy idea (in contrast to 19.5%) and only 0.25% of the interviewees do not know it (against 1.8%). This particular way of framing debts is one of the main discoveries of department stores, which started selling clothes in installments to loyal customers with a book that would register monthly payments at the sales point. One can illustrate this with particular cases.

Marta, who uses her department store credit cards to *sacar cosas* , puts it in a clear way "I say, what I can afford to is not more than twenty or thirty thousand pesos [around $ 40 and $60]. I ended liquidating what I had, but after that I organized myself and said: I can pay up to 20 and I cannot pay more than 20, and actually that is what I pay, 22 in Falabella and 7 in Paris".

The same logic used Mary when she bought a new TV set for her home in 18 installments at a department store "What I pay attention to is how much I can pay in a month. So I say, if it costs fifty thousand a month at the most, I can afford to pay it".

This simple heuristic is complemented with other rules of thumb such as buying "small stuff". As Mercedes says, she "[uses credit] only for certain things…a gift for my nephew, only for something small. An installment of ten thousands, always three installments only and no more". Diego, for instance, has been always careful about "not buying two durable and expensive goods at the same time" in department stores. As a general rule, small items such as a shirt, a jacket or a pullover, could be bought while a durable good is being paid. That is how Diego end up buying a refrigerator first, then a computer and later on a TV set.

Adhering to these rules could lead one to use credits in a systematic fashion, to the extent that people think about debts as regular expenditures rather than obligations; they have learnt how to "live on debts". For Diego, to continue with the previous story, every time debts have being paid off and the balance is in zero, the available credit is considered as a sort of "virtual saving", an available amount of money that can and should be spent on the department store. As he puts it "I bought a refrigerator, then a notebook and then a TV. I finish (paying) this one and I buy another one, and so on. If I see the account a bit empty, and I go (to the shopping mall) and get excited about something, I buy it and "project" it in order not to become indebted". As one can see, an "empty" account is a balance without debts, or quite to the contrary, a credit card with available "room" ready to be spent at any moment. As such, credit becomes a permanent expansion of one´s income, and the "negative" connotations of debts are neutralized.

This way of understanding debts is present across many interviews, where being indebted does not mean owing money to someone, but rather a matter of having been under financial distress in the past or in a fictional future state where debts are out of control. In Diego´s words "I can tell that I have no debts in comparison to the "common denominator" (most people), I live in peace, because if I want I can pay off everything in two or three months".

13.3.2 Keeping Track of Debts

Fernando is thirty years old, divorced with two daughters, and found himself in a situation where the monthly payments of the debts he took with the bank to replace a computer and a guitar that were stolen, had increased from $100 to $200. That was an amount that he could barely afford to pay, considering that he spends most of his income on his two daughters. He never thought that the debts he took with his bank and department store credit card would overlap at some point, and initially he relied on his bank overdraft line to handle these debts, a period that lasted around six months. This was a dangerous game (pedaling) because even though he used the overdraft line many times before, the bank never took money from her salary on her bank account. In his words "the bad thing is that your salary is deposited on your bank account but the bank don´t discount your credit line. It stays there, and then it is interesting for you to have that debt that will not be charged and still have your salary on your account." In the end, the bank offered him to put these two debts together by granting a new consumer loan that he could afford to repay. By now, the $ 3200 that Fernando initially borrowed from the bank became $ 5200, which had to be paid in 54 installments of $160. He recognizes that it was a mistake, "…I didn´t figure out the magnitude of what was going at that time, by then, (…) I thought that bank credits or cards were a 10%, that I would have to pay a bit more than what I owed; a bit more…"

This seems to be a typical credit-story, except the fact - even striking for Fernando- that he has a strong background in mathematics, works as an engineer in a consulting firm, and has given private lessons of physics and mathematics for many years. The question this credit-story raises is how a person with such strong background on mathematics could get into such a messy situation?

There are several reasons that explain why people cannot make complex calculations, which range from the unforeseeable character of the future (Beckert 1996), lack of education and cognitive constraints (Tversky/Kahneman 1974; Kahneman 2011). Although people use clear expenditure targets in order to buy things with credit in a department store, different goods are bought in several installments and with different credit cards, creating overlapping debts and making sometimes their payment a hard thing to routinize. That is why managing one´s finance is a very demanding task that sometimes requires some sort of *prostheses* (Callon 2008), external aids that distribute the cognitive burden into objectified forms of memory. Interviews show that rather than making complex calculations and understanding the logic of revolving credit, keeping track of expenditures and financial commitments in objectified forms of memories proves to be a very effective way of handling debts. Why is it so?

The reason behind the phenomenon has been pointed out by different theories. According to the view point of Hutchins´ theory of *distributed cognition*[149], memory or the capacity to store and retrieve information is seen as a socially distributed cognitive function. According to Hutchins (1991), both the environment and its materiality play a major role in assembling functional skills, and assemblages might well be contained in one or more individuals, as well as material artifacts. Social studies of science, on the other hand, have reiteratively made the point that economic coordination is only possible through the assemblage of networks of human and non-human agencies that allow actors to carry out calculations and make exchanges possible (Çalışkan/Callon 2009; Muniesa/Millo/Callon 2007; Callon 1998). A few cases exemplify how practical skills such as "keeping track" of debts help people handle debts.

Karen, for example, has been very organized with her finances. She uses department store credit cards in a systematic fashion, manages to pay them on time and even to save money for her holidays every year. Being organized is a practical skill she developed for many years, starting when her alcoholic father left home when she was fourteen, and she took on the responsibility of helping her mother with the house expenses and left the school to start working as a baby sitter and cleaning work offices. She understands the overall logic of credit cards, and is even strategic when lending her credit card to relatives that she knows will pay and improve her credit scoring. But what helps her keep things in order is a small book where she writes down all her expenditures and financial obligations (picture 1). In a very systematic

[149] The theory of distributed cognition aims at understanding how cognitive systems work by emphasizing the interaction between internal structures and external and supra-individual components. Distributed cognition introduces a different way of understanding how the organization of agencies leads to the performance of new functional skills. Hutchins follows Vigotsky in that new functional systems are brought into existence in the interaction of the agent with others and with artifacts, existing first as an inter psychological process and then coming into existence as a psychological one.

fashion, Karen writes down her incomes (around $900), groups expenditures into items such as household, supermarket, Falabella´s department store credit card, mobile phone, a loan she had with his father, a loan with a compensation fund and Paris (department store). Furthermore, she adds expenses on gas and transportation. Finally, she sets apart what she calls *caja chica* (or small box), a usual name used to talk about liquidity or available cash in Chile

Figure 74: Karen´s Accounting Book.

This way of managing debts and more generally, finance, by keeping track of expenditures and debts, proves to be efficient also for other consumers, such as Magaly, Mary and Olga. These “accounting books” serve as *prostheses* or *objectified memories* that -following Bernard Lahire- one could say enhance the capacity of shaping people´s temporality by establishing “daily exceptions to the pre-reflexive adjustment of practical sense to a social situation” (Lahire 2011, 121). In fact, these are useful devices for managing debts because the financial business is not so much about paying debts, but rather paying the right amount at the right time.

In its most extreme case, for example, the practice of keeping track of one´s expenditures and financial obligations can turn the credit card itself into an accounting book, a sophisticated device for keeping track of one´s incomes and expenditures. This is the case of Olga, who systematically uses her bank credit card to pay in three interest-free installments and keeps with her every invoice she gets at the supermarket or any other shop where she makes purchases. To some extent, the bank credit card is a suitable device for organizing people´s finances, since unlike any other financial instrument, bank credit cards leave a trace that helps people keep tracks of their expenditures. But this way of using credit cards to organize finances requires an important arrangement of devices. In Olga´s case, organizing finances with credit card requires at least three other devices: Olga´s agenda (picture 2) is crucial to write down financial commitments and future incomes, such as paying a dentist bill for the orthodontic treatment of one of her sons, as well as the bonus she gets at the end of the year from the company. The second device is the folder where she keeps all of her credit card bills, which she would cross check every month (red marks, picture 3) with the help of the third device where she keeps all the invoices (picture 4). To some extent, being organized is the result of some sort of professional isomorphism, since she is –as she argues- very good at putting things in order, folding papers and organizing information.

Figure 75: Olga´s Agenda

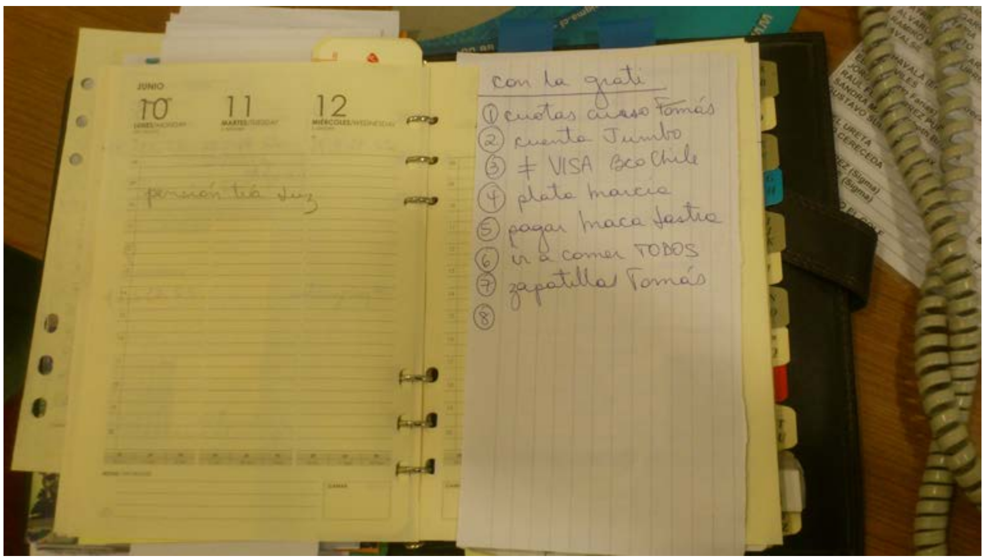
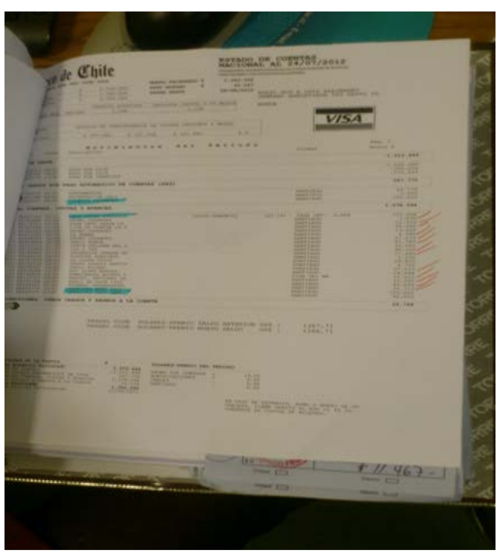


Figure 76: Olga´s Visa Card Invoices



Summing up, what these practices show is that, contrary to the assumptions of most "financial literacy" policies, Chileans are not interested in interest rates or the final price of an item purchased on credit. What matters to them seems to be how much they can pay each month to honor their obligations, which by many are not even considered as "debts". Thus, the crucial issue to incorporate credits as a permanent expansion income, is not to make complex calculations, but to master the "timing" of their debts. In this scenario, practical skills and "objectified forms of memories" seem to be very useful in helping consumers handle their debts in appropriate ways, provided that there are no income shocks.

CONCLUSIONS

This dissertation seeks to achieve two main goals: to explain the explosive expansion of consumer lending that took place in Chile over the last thirty years, and to make a contribution to the incipient research on consumer lending in developing countries, as well as to the extant literature on financialization.

In attempting to make sense of the financialization of Chilean households, I distinguished this work from ethnographical accounts of debts in developing countries, and followed political economists who claim that financialization in contemporary capitalist democracies works as a *policy tool* that ameliorates distributive conflicts. I referred to this position as the “Privatized Keynesianism” hypothesis. But I also engaged critically with this literature addressing two remarks. Firstly, I argued that financialization scholars rarely engage empirically with the way families actually carry out their consumption by financial means, abstracting the household from its social context, making strong assumptions regarding their consumption practices, and assuming that debt-driven consumption is mainly “defensive”. As a solution, I advocated for a micro-foundation grounded on existing theories of consumption.

Secondly, by looking into the case of Chile, where financialization went hand in hand with rising real wages and material improvement, this dissertation posed a striking puzzle for most part of the financialization literature dealing with the expansion of consumer lending: by focusing on Anglo-American economies and assuming a major role played by wage stagnation and a general deterioration of the middle classes, the “Privatized Keynesianism” hypothesis is unable to explain how credit –and finances at large- works as policy tools in contexts of improvement.

This case raised the main research question: *If households in Chile are better off, why are they becoming indebted to expand their consumption?* My answer to this question has two parts, one rooted in political economy and the other in consumption sociology.

At the level of political institutions, I suggested that the “Privatized Keynesianism” hypothesis prompts us to think not only about commodification processes, but also in terms of the strategic management and utilization of credit/debt relations carried out by governments to tackle distributive conflicts. This is what I called the *Politics of Debts*.

From the perspective of the *politics of debt*, I devoted the first part of the dissertation to show that, unlike most cases studied by political economists, where finances are used to indirectly deal with wage stagnation and raising living-costs, financialization in Chile was actively promoted to support the creation of new markets for housing, education and consumer goods. Unlike the financialization of housing and education policies, however, the financialization of consumption in Chile was not carried out by the government but by department stores that exploited a situation characterized by lack of regulation and low wages. By financializing Chilean households, consumer credit became indirectly a *de-facto* policy tool that allowed big shares of the population to expand their purchasing power and participate in the "party of consumption". At the same time, credit fueled the economy and made the problem of persistent inequality less salient.

In this overall process, I showed that the legitimacy of the Chilean *debt fare capitalism* is at stake every time the *counter-politics of debts* carried out by social movements call into question the legitimacy of debt relations in the fields of housing and education. This, in turn, resulted in an active *politics of forgiveness* implemented by the government, which aimed at relieving political pressure, while at the same time it provided incentives to financialize the population with the help of private actors that do not operate under the logic of *social justice,* for instance banks. In the domain of consumption, however, the *politics of debt* followed a different path because the ideology of consumer credit, according to which consumption is a private affair subjected to personal preferences, blinds the financialization of households against the *counter politics of debt.*

This detour was a necessary step to understand how Privatized Keynesianism works in Chile at the macro level. But it provided only one part of the answer. It shows that financialization is functionally equivalent to social policies, and that it requires an active intervention on the part of the government to regulate underlying credit/debt relations. But it does not explain how it exactly works if it is not replacing stagnant wages, nor why do people acquire consumer debts in context of material improvement. As argued, this does not contradict the "Privatized Keynesianism" hypothesis, but it prompts one to think about more subtle mechanisms driving the indebtedness of Chilean families.

The first step I took in this direction was to provide an overview of the major trends in consumption and indebtedness over the last two and a half decades, proving that: a) there has been an important change in the consumption patterns of consumers across all income groups; and b) that in this context consumer credit has served as a means for expanding people´s purchasing power and buy durable goods, rather than a way to cope with market volatilities.

I then moved on to characterize the indebtedness of Chilean households in a more detailed fashion, showing that department stores are by far the most important source of credit among Chilean families across the whole income distribution, and that although most stocks of debts are concentrated on the top 20%, on average low income families have a higher financial burden measured as monthly debt service.

Trying to assess the determinants of debts levels in Chile, I drew on the work of economists. Although they provide very heterogeneous estimates from which it is difficult to draw general conclusions, their studies serve as a first approximation to the structural factors shaping the indebtedness of Chilean families.[150] Succinctly speaking, income shocks are, by far, the most important factor explaining the levels of debts and default rates, which is also explained by the fact that income has a direct effect on the “debt to income ratios”. Accordingly, income quintiles and income related variables are the most powerful predictors of debt levels, which diminish the effect of all other variables when included. The effects of health and educational shocks, on the other hand, depend on the year of analysis and in general are important in explaining the probability of being or becoming over-, but they are not important in explaining debt levels.

Furthering this research agenda, I used three logistic regression models to assess the role played by different structural factors in explaining the odds of having different types of consumer debts.[151] Two remarks deserve special attention. Firstly, that having one household member generating expenditures on education increases the odds of having a department store debt, while more than two household members generating these expenditures increases the odds of having a bank loan or bank credit card debt, even when income controls are added. As I argued in chapter 11, this occurs because expanding education will put a direct pressure on the budgets of Chilean families that allocate higher shares of their discretionary incomes to cope with educational “arms race”.

Secondly, in line with the idea that expanding homeownership is one of the main driving forces of the financialization of consumption, “homeownership” has a significant and positive effect on the odds of having consumer debts, although it does it in different ways. As I previously showed, this is related to the fact that Chileans are, in general, very inclined towards the idea of improving, decorating and furnishing their “own homes”, while they remain more reluctant to make any home improvements or investments when they do not owe their homes. This is why becoming homeowner and moving to one´s home turnout to be a crucial turning point in which people start using different types of credits in order to materialize their desired class identities.

These estimates provided a general picture of the determinants of debt levels, but they do not say too much about the circumstances under which consumers actually acquire these debts. Indeed, the fact that debt levels are determined by “income shocks” does not mean that people acquire more debt when facing constraints, but only that these debts become a higher burden when income drops. Estimates rather suggest that the way people consume with credit and the risk of being in financial distress are stratified

[150] This means that results change depending on the source of data and the years of the survey; most models have a small R^2 and they usually use a sub-sample of indebted households.

[151] The reason for this is that “educational shocks” considered in existing estimations (a household member studying at the university) overlook the role of expenditures on education.

according to socio-economic background, but they do not allow us to understand why people seek to expand their purchasing power even when it can turn into an important burden.

Since broad characterizations proceed by definition with an “average” notion of the household devoid of social relations, I argue that in order to answer the questions posed it is necessary to move on to open up the “black box” of households and tackle the relationship between consumption, standards of living, commodification and debts. This is paradoxically the cornerstone of the “Privatized Keynesianism” hypothesis, but at the same time is its most obscure and less explored dimension.

The second part of this dissertation followed consumption sociology in that standards of living that we consider as “normal” and “legitimate” to accomplish are socially constructed. Drawing on recent financial surveys conducted by the Central Bank of Chile, secondary literature, and in-depth interviews with 30 middle class Chilean families, I developed in parts II and III a main argument that could be summarized as follows:

> The fact that standards of living grow at a higher pace than wages creates a gap between aspirations and incomes. This gap induces a major concern about “rank”, “achievement” and "security" that I called -borrowing De Botton´s (2004) concept- "status anxiety". The status anxiety of Chilean families is expressed in two different but related concerns: the desire to take part in the benefits of growth, and the fear of falling behind. These two sources of status anxiety exert different pressures on the financial and consumption practices of households. The former creates pressures to perform belonging to an *imaginary middle class* that demands ever-expanding standards of consumption. The latter pushes people to deploy "position-taking" strategies and invest increasing shares of their budgets in improving or ensuring their positions in society. In making these endeavors, most Chilean families progressively incorporated consumer credit as an expansion of their purchasing power.

Following the “status anxiety” hypothesis, I showed that there are good reasons to believe that Chilean families across different income groups are very anxious about their status and share a feeling of “falling behind”. But the ways “status anxiety” affects their consumption and financial practices differ across the social structure.

The financialization at the “Bottom of the Pyramid”

Altogether, a combination of higher aspirations, more demanding standards of living, higher living-costs and low incomes, explain why the expenditures of the poorest families have been systematically higher than their incomes over the last twenty years.

As I showed, most of the improvements enjoyed by these households were possible due to the direct intervention of the Chilean government via subsidies and targeted social policies. But better access to sanitary, housing and educational services were basically not met with better opportunities on labor markets. As a result, the standards of living of people that moved out of poverty were ratcheted up, especially for those that fulfilled the “homeownership dream” for the very first time in generations, but their labor-money was insufficient to catch-up with the available goods brought on by trade openness, now displayed in the showcases of department stores at the shopping malls. This, in turn, increased the gap between their aspirations and incomes (status anxiety).

In any case, for low-income consumers this happens not only because their aspirations are too high, but also because the average wage falls short in the wake of the high living-costs. Considering that living-costs in Chile are very high for most workers that do not earn more than two minimum wages (around USD 900), the material improvements experienced by many Chilean families left them on the verge of a new form of citizenship that is centered around the participation in the collective ritual of consumption. In this context, small credits of department stores became the only means for being integrated into the new consumption standards of the Chilean society by decorating and furnishing their new homes, as well as demarcating themselves from the stigma of poverty (van Bavel/Sell-Trujillo 2003).

I supported the idea conveyed before with different sources. With data taken from the Household Financial Survey, I showed that households from the five lowest income deciles (bottom 50%) use these credit cards to buy home appliances in a higher proportion than wealthier families. Accordingly, in line with qualitative studies conducted with poor consumers in Santiago, I argued that the main aspiration bringing about the indebtedness of most of these consumers is not deploying wealth nor the search for status, but the acquisition of a “package of durable goods” that allows them to carry out the process of “home-making”, which entails the expression of people´s identity attuned with their integration into the Chilean society. In this scenario, many of these goods would also serve the purpose of regulating scarce spaces and conflicting social relations within the households.

In this scenario, the broad picture became clearer in that the financialization of consumption stands at the intersection of social policies that provide housing and private property for families that were previously living in precarious settlements, the consolidation of new standards of living, and persistent levels of income inequality.

Status Anxiety and the Financialization of the middle classes

In the coming sections of the dissertation I characterized the financialization of households that are from the middle of the income distribution (now between the IV and VII income deciles). The reason for making this distinction is that, unlike poorer consumers, these households experienced rise in their wages, are less prompt to fall under the poverty threshold, have more opportunities to maintain or improve their status, enjoy better work contracts and are essentially meritocratic (they do not receive government subsidies) (Bazoret/Fierro 2011; Espinoza/Bazoret 2009; Contreras et al. 2005). In this regard, their financialization seems to be even more puzzling.

To grasp the financialization of these groups, I relied on the notion of “relative poverty”, that serves as a proxy to the median “standards of living” in a society. From this perspective, it became clear that an important share of Chilean middle-income households fall behind the median standards of living, even though the incomes of these “relatively poor” people have increased at a higher pace than those of the absolutely poor. Moreover, “relative poor” households have different profiles than those of poor households, such as male heads of households, less children and more elderly people. This supported the idea that families that experienced upward mobility, and that one considers as being in “good financial situation”, share the “status anxiety” of poorest households that are not participating in the benefits of growth.

In this spirit, I showed throughout chapters 7 and 8 that there are clear signs of “status anxiety” among Chilean families that, even though have experienced material improvements, still feel unsatisfied with their incomes (for example, I showed that at very different levels of income and education, people feel that their income can barely help them meet what they consider “basic needs and nothing else”). With this diagnosis in mind, I explored different social processes and mechanisms that might help explain how inequality has shaped the “anxious” behavior of Chilean consumers in contexts of general improvements, and how this might have affected their indebtedness.

Assessing the role of the “trickle down consumption effect”, I showed that there is an important exposure to the lifestyles of richer consumers mediated by an impressive expansion of advertising, a total penetration of TVs and the consolidation of new contents among the average audiences, such as showbiz. By these means, Chilean consumers become interested in the lives of “successful” and wealthier celebrities with whom they can identify themselves, an idea that I extrapolated to other genres. This not only creates new desires and aspirations, but also distorts the perception of reality and creates a generalized feeling of “falling behind” (something that goes in line with Merton´s suggestion that in context of upward mobility people tend to have higher identification with advantaged groups). Furthermore, I argued that the increasing participation of women in the labor force stands as a structural factor that accounts for the establishment of new standards of living and consumption norms through changes in the reference groups among moderately educated families. Finally, I argued that this perception of “falling behind” is also rooted in the “luxury fever” deployed by top earners in Chile over the last decades.

In a similar vein, I explored the role of dynamics of *class differentiation* pursuing the idea that the embracement of consumer credit as a legitimate means of acquisition is bound to the process of reaffirming one´s class identity in a context of changing social boundaries and higher standards of living. Following consumption studies, I specifically argued that the *desire to participate in the benefits of* *growth* materializes in an “imaginary middle class”, which becomes a source of “status anxiety” every time expanding consumption blurs social boundaries and standards of living become more demanding. With this aim in mind, I showed that although the new middle-class changed existing social boundaries among socioeconomic groups, the main criteria of social distinction in Chile are still strongly correlated with purchasing power. This in turn creates strong pressures to consume beyond people´s means across all social strata in order to deploy the appropriate consumption standards attuned to their new or “authentic” class identities. I found support to this idea in both in-depth interviews with middle-class families, and in studies on social mobility that suggest that by prioritizing expenditures and allocating incomes, savings and credit in specific ways, the so-called new middle-class seeks to perform what they conceive of as their “expected” and “authentic” class identities (Mendez 2008).

In this scenario, being a middle-class citizen becomes a difficult task to perform, for which consumers deploy practices of distinction and consumption that are constantly –though indirectly-challenged by rising standards of living. Paradoxically, the more families strive to perform their middle class identities, the more the “imaginary middle class” turns into more demanding standard of living and credit becomes the appropriate way to comply with shared expectations. Finally, I suggested that raising standards of living and providing credit access for bigger shares of the population also induced “status anxiety” through a sort of “bottom-up consumption effect” that exerts pressures on more affluent consumers to redefine their consumption standards in a zero-sum game.

Of course, there is still much research to be conducted on this topic. We know too little about what the “imaginary middle class” actually is, and one can arguably say that it is a very fragmented “imagined community”. Anyhow, both quantitative and qualitative evidence points to the fact that there exists an extended identification with being a “middle-class family” and at the same time a perceived distance between one´s income and aspirations, which ultimately reflects claims for social integration in a context characterized by an unequal distribution of income and changing social boundaries.

Finally, in part III I advanced the main argument by maintaining that the “status anxiety” of Chilean families also stems from the “fear of falling and being left behind”; that is to say, the fear of not being able to catch up with a more demanding economy and secure one´s position and life-project. In this sense, I showed that only a smaller portion of households has a safety net, and that in times of crises they do not resort to credit but to social networks or restraining their consumption. This ruled out the “defensive consumption” hypothesis in its most simple form, but it does not mean that the commodification of social services does not exert a pressure on their budgets. Looking for more subtle mechanisms, I showed that households are pushed to compete with each other in order to secure their positions, engaging in “arms race” for ***positional*** but inconspicuous goods that divert their discretionary incomes to these expenditures and create “budget gaps” that are supplemented with consumer credit. This offers an explanation of why expenditures in education are positively and significantly correlated with debt levels.

Moreover, I showed that the commodification of health exerted a less visible pressure on the shoulders of these families by raising prices and demanding the highest levels of out-of-pocket money in OECD countries. In the case of retired workers, I showed that the privatization of pension funds relegated an important share of pensioners to the condition of poor, for which credit becomes the only means for filling in the gaps between drops in income and rising expenditures. Although their debts are smaller in the overall levels of debts, these became a target for new financial institutions –the so-called "Cajas"- that administer their pension funds and lend money without taking any risk.

Taking the overall picture into account, I thus defended the idea that even though Chilean families do not use credits in a "defensive" fashion, ultimately commodification processes leave many Chilean families with no other option than using consumer credit in order to catch up with more demanding standards of living and carry out the life-projects they consider legitimate to pursue. In this sense, the fears of falling and being left behind puts a burden on their budgets and becomes actually an obstacle to the realization of the *imaginary middle class.*

Life-trajectories and Credit: the Status Anxiety hypothesis from "Below"

The qualitative analysis based on in-depth interviews with middle class families sought to cover an existing gap in the studies of credit in developing countries that focus mainly on the financial strategies of poorer families, as well as a lack of empirical research on the financialization literature. The credit stories here sketched depicted the intertwinement of indebtedness and life-trajectories, illuminating some aspects of the "status anxiety" hypothesis and brining new insights to light.

To start with, qualitative analysis showed that "being in debt" is usually a process that changes both consumption practices and the meanings of debts. For most people in Chile, credit is encountered for the first time at the "market place", in which lenders have been very successful in "marketizing" credit and engaging them in credit relations. Once people get their first credit card or consumer loan, many consumers get excited, enjoy being recognized as subjects of credit and acquire things for which they would otherwise not save. Rather than accessing new goods, however, for the middle-class, credit allows people to enhance those things they already have, which basically means to acquire "branded" products, such as a "good" tennis racket and "better" clothing. This logic applies also to the extended practice of making gifts with credit, with which gifts are "enhanced". This means that in many cases –especially for those that have enjoyed better wages- more demanding consumption standards are manifested in the search for "quality" rather than mere acquisition. The immediate association of credit with "better" or "branded" goods suggests that although the availability of credit by itself puts these goods within the reach of consumers, these goods representing latent aspiration.

People normally learn how to deal with their consumer debts by resorting to simple rules of thumb, such as "buying no more than one durable good" at a time, or setting a monthly target to pay installments. When this happens, people gradually improve their credit scores and get more "available funds" in their credit cards, and many incorporate credit as part of their permanent income. In this process, the naturalization of debts changes its meaning and neutralizes its negative connotations. As a corollary of this process, people do not feel indebted until they are in trouble, which helps understand why having savings is not a contradictory practice with having debts.

In general, consumers have a relatively clear idea of the things they are entitled to have, and buy with credit things they consider as "necessary". In this way, in line with the "status anxiety" hypothesis, interviews indicated that things people claim to "need" are used to become independent from other relatives and materialize the family project, rather than protecting their lifestyles or deploying wealth in front of others. Thus for example, people moving out of the house of their relatives acquire new goods on credit and replace "old stuff" according to their own preferences, which in many cases demarcate distance with social origins. In this sense, acquiring, decorating and improving a home becomes a subtle process through which people materialize the standards of living they desire, as well as perform their desired class identities (the *imaginary middle class*) in the domestic sphere. In this way, the utilization of credit is bound to processes of improvement (becoming homeowner), even when these are not facilitated by better wages. This, in turn, supports the idea that the financialization of consumption is being driven by the rising standards of living fostered by expanding homeownership.

Pushing this line of reasoning further, I pursued the idea that social trajectories really matter and showed that the "social origins" of families play a crucial role in the way people deal with debts, money and consumption. For consumers that experience abrupt upward mobility, for instance, credit becomes a source of recognition; get over-excited and spend systematically beyond their means. This is what I called the "income-spike effect", where a raise in wages leads to over-indebtedness.

In the case of consumers with poor backgrounds, upward mobility turns into a sense of "euphoria" that leads people to display wealth as both the expression of a sense of pride regarding one´s achievement, as well as a way of erasing the markers of social origins. In this sense, being impulsive or "not denying oneself anything" stems to a great extent from previous experiences of poverty and material constraints, while becoming a subject of credit stands as a source of recognition and self-esteem (in these cases over-indebtedness might also take place because people lack the practical skills to handle the new magnitudes of money). Ultimately, this is a subtle manifestation of latent aspirations and claims for recognition, which explains why being in debt does not have moral connotations.

For consumers with middle-class backgrounds, on the other hand, upward mobility can lead to over-indebtedness in more subtle ways. Credit-stories showed in this sense that new houses can lead to over-indebtedness when older goods do not fit the new "standards" of a new neighborhood or the size of the house, something known in consumption studies as "Diderot effect". By the same token, families that experience upward mobility (for example by making career in a company) and become exposed to new reference groups and circuits at the work place, have pressures to over-consume in order to perform a "match" between their new class identity and expected consumption standards (taste and wealth).

This means that beyond the structural determinants of debt levels sketched in chapter 5, there are clear processes through which people a) acquire debts in contexts of improvement, and b) become over-indebted without the mediation of income shocks. In this sense, I also depicted in the last part of the dissertation the practice of "turning debts into capital" as a dangerous way to cope with "status anxiety" that leads to over-indebtedness, and the practice of "pedaling" debts as a dangerous way to cope with the "risk of debt" itself.

"Status Anxiety" and the Culture of Credit

The qualitative analysis also revealed some widespread practices among Chilean families that are invisible to surveys, but represent important and subtle ways in which credit becomes part of the available repertoire of economic practices and shapes the expectations of participation in the Chilean modernization process.

In this sense, practices such as buying gifts to the loved ones and oneself on credit indicate that credit has become an important means for Chilean families to participate in rituals, manage social commitments and regulate interpersonal relations, proving that debts are *embedded* in the *social relations* of the household. Broadly speaking, once people learn how to "live in debt", credits are used as a way of handling overlapping temporal orders, such as the "life-world" time of social obligations, the institutional time of the official calendar, and the normative time of life-cycle transitions. In all these cases, the practice of buying gifts with credit serves for materializing the cultural categories of society, such as becoming a good father or aunt, taking care of the loved ones, and managing interpersonal relations and obligations.

Insofar these practices are informed by normative expectations about *what* gifts are appropriate, *when* to carry out life transitions, *what* things one is entitled to have at *a particular* moment, they reflect broader standards of "appropriateness", belonging, decency and status. In this sense, the practice of making gifts with credit cards stands as a subtle way to perform one´s belonging to the "imaginary middle class" and comply with existing and shared consumption standards. Thus, for example, the economic independence implicit in the practice of *darse gustos* or making gifts to oneself with credit, is nowhere better represented than in the practice of “doing shopping”. In this context, *darse gustos*, which means walking around the shopping mall without any particular purpose and spending (credit) money on something unusual or simply unplanned, such as a haircut, shoes, or a restaurant meal, is at the core of the imagination of the middle class away from material restrictions and with some sense of independence. This means that what one usually considers as an individualistic and hedonistic consumer/debtor that gets overexcited about products displayed at the shopping mall is rather giving him/herself the possibility of participating in the collective ritual of “breezy consumption” that is characteristic of the *imagined middle class*.

According to this line of reasoning, credit in the case of housewives represents a way of gaining economic independence in a context where gender relations and unequal opportunities on labor markets prevent them to become full members of the economic life of the Chilean society (that is why most housewives that learn how to handle the monthly installments of department stores credit cards acquire debts without telling their husbands). Likewise, the very fact of being recognized as a “subject of credit” when passing through a department store, is a source of recognition and esteem not only for consumers that experience upward mobility, but also for those that lack purchasing power but can be anyway recognized as potential consumers.

By gifting “enhanced goods”, people implicitly recognize that these “better objects” are valuable for society and themselves, revealing the latent aspirations of Chilean consumers by ultimately giving the possibility of taking part in the benefits of growth and participating in the affluence of the Chilean society.

Finally, the qualitative analysis also shows that credit is not only a legitimate means of acquisition and materialization of existing aspirations, but in many cases it becomes a catalyzer and creator of possible courses of action that shape these aspirations. This is clearly seen in the fact that people do not purchase goods on credit but “grab” things (*sacar cosas*) from the department store; think of their social commitment and of honoring them with credit (making and enhancing gifts); plan major transformations at home and life-transitions with their “available balance”; and trace of strategies to improve their position with consumer debts (turning debts into capital). In this way the “imaginary middle class” that people perform with their material practices is also a projection opened by the availability of credit, and reflects the fact that people “think with credit”.

The Consumption of Credit: Emulating or Protecting Lifestyles?

Most studies addressing the rising indebtedness of households tend to depict an ideal typical notion of consumers/debtors: either as victims of commodification processes (as in the “defensive consumption” hypothesis), or as emulators and status seekers that succumb to the pressures of consumption society (“trickle down consumption hypothesis”). But as showed in this dissertation, the “status anxiety” hypothesis suggests that these consumption logics might be two sides of the same coin: under certain conditions (growth and inequality in the case under study), societies set higher and more demanding consumption standard with which people try to comply. These standards materialize in the “desire to participate in the benefits of growth”, but in a context of insecurity and uncertainty regarding one´s success, more demanding standard of living stand hand in hand with the “fear of falling or being left behind”. These two sources of “status anxiety” are similar and empirically intertwined, but analytically speaking they can be clearly distinguished from each other. While the former manifests in the form of legitimate entitlements (having the standard package of durable goods or reaching economic independence), the latter expresses itself in the position taking strategies of families (like paying for a better education or starting a small business).

According to this perspective, the “status anxiety” hypothesis provides elements to think of the relation between standards of living and the politics of debt without conflating consumption dynamics into a single dominant logic, “conspicuous” or “defensive” consumption. More specifically, by attending to the role played by consumption standards in the everyday making of the middle classes, many practices that cannot be considered either as entirely “conspicuous” or “defensive”, prove to be crucial in driving the financialization of consumption. In this sense, following studies on consumption, social mobility and material culture in Chile, I argued that for many families the rising standards of living seem to materialize in an “imaginary middle-class”, and that belonging to this *imagined community* is materialized through a wide range material practices that take place in both public and private spaces, such as going to the shopping mall, starting a small business or sending one´s children to college, and buying, improving and decorating the home, managing social relations and honoring social commitments. Ultimately, these consumption practices and imaginaries represent the grounds on which finances work as a policy tool, showing the intertwinement of the politics of debt and the life-world of consumers upon which the social integration of society ultimately rests. In the end, both the *will to participate in the benefits of growth* and the *fear of falling behind* that prompt people to acquire debts are nothing more than claims upon legitimate entitlements and participation in the socially constructed standards of living.

Where to go now

There are many issues that remain unsolved and require further research. To some extent, this stems from the fact that the main goal of this dissertation was not directed to the refinement of its methods but in the attempt for integrating the everyday life of debts with broader social dynamics. Ultimately, the main contribution of this work is to provide a sociological, empirically informed, and more nuanced account of how credit works as a policy tool when it is not necessarily replacing stagnant wages, i.e.

Chile´s Privatized Keynesianism. That being said, I see at least four important venues that are worth deepening and further investigating in the future.

From a quantitative point of view, there are no estimates in Chile of the effect that expenditures of the richest 20% have on the patterns of expenditures and debts in the middle of the income distribution. This would require panel data showing the effects of higher expenditures unfolding over time, as well as the role played by different patterns of social mobility.[152]

In a different vein, future inquiry into the relation between consumption and debts should deepen the idea of an “imaginary middle-class” as an imagined community, putting an emphasis on how consumers in Chile codify and de-codify class differences, markers of status and belonging. Qualitative studies should also address the process of bankruptcy and recovery in a context where protective institutions are almost non-existent, as well as characterize the financialization of specific populations such as high income professionals, housewives, youth, retired workers and over-indebted families. This dissertation provides some insights into the financialization of these groups, but characterizing them in a detailed fashion is still a pendent task. In this sense, many issues were left aside because a systematic treatment would divers too much from the main goal, such as the *counter politics of debts* carried out by debtors on an individual basis (practices of sabotage and resistance), or a deep understanding of the morality of consumer debts. By the same token, more research is required to unravel the intricate relationship between savings, debts and insurances that, as previously showed, seem to challenge conventional wisdom on the matter.

At the level of market sociology, the consolidation of side industries that emerged along with the indebtedness of households deserves more attention. The market for “debt collection” is arguably one of the most important emerging industries, but we still know too little about the way in which this profitable industry works, how consumers are pooled, sorted and remade in the laboratories of data miners; and how lenders and collectors regulate long-lasting credit relations with consumers.[153]

Finally, the most important research agenda for future inquiry relates to the *politics of debts*, which demands further integration of the perspectives of political economy and economic sociology. As this dissertation showed, debts operate at different levels, binding individual obligations with larger networks of organizations, markets with social policies, and politics with financial businesses. At the micro level of analysis, understanding the everyday making of the *politics of* debt demands from economic sociologists more research on how techniques, devices and organizational features developed within and for financial

[152] In any case, from a cross sectional perspective it is still a valid point that the lifestyles of wealthier consumers become available for individuals at the middle and bottom of the income distribution, and that this induces “status anxiety”.

[153] Likewise, this work detected the emergence of a side business carried by lawyers that although help people struggling against powerful lenders, benefited from a lack of protective institutions and financial literacy.

markets are constantly transported and re-translated into the domains of policy making, and what the unintended consequences are.

With the consolidation of financial capital, it becomes clearer that the government is no longer the only actor with the capacity and *symbolic power* to determine *who* has “too much” or “too little” debts, and *what* debts can be forgiven, renegotiated or paid at any costs. But as long as financialization policies re-distribute power, and the pragmatics of *credit/debt* relations reveals the moral foundations of any political order, the legitimacy of debts will always stand as a contested issue. This will demand further research on the concrete *politics* and *counter-politics of debt* and *forgiveness* mobilized by governments, lenders, corporate actors and social movements alike, showing its relation with the landscape of power relations and broader institutional changes (in the age of financialization, these are all lenders and borrowers!). Furthermore, as I showed, if financialization runs in parallel to the creation of new markets and stands as a taken-for-granted corollary of commodification processes, one can expect that the embracement of fiscal austerity, privatizations and cuts in social spending will be followed by a *counter-movement* that will increasingly take the form of the *politics of debt.*

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APPENDIX A: ESOMAR Classification of Socioeconomic Groups

The index is traditionally constructed by crossing the educational level of the head of household with the total number of available goods. Currently, there are more sophisticated actualization of the classification system that account for the penetration of new consumer goods into the standard package of Chilean households, such as computers and smartphones.[154] Nevertheless, the ESOMAR classification here presented was updated according to the National Census of 2002, and has been used by the works and marketing researches referred in this dissertation.

	Number of goods (Shower, washing machine, refrigerator, color TV, water heating system, microwave, cable TV, computer, internet, vehicle)											
	0	1	2	3	4	5	6	7	8	9	10	
Without education	E	E	E	E	E	D	D	D	D	C3	C3	5,3
Primary Incomplete	E	E	E	E	E	D	D	D	C3	C3	C3	25,5
Primary Complete	E	E	D	D	D	D	D	C3	C3	C3	C3	8,5
Secondary Incomplete	D	D	D	D	D	D	D	C3	C3	C3	C2	17,9
Secondary Complete	D	D	D	D	C3	C3	C3	C3	C2	C2	C2	21,9
Technical Incomplete	C3	C3	C3	C3	C3	C2	C2	C2	C2	C2	ABC1	5,2
Technical Complete or Higer Education	C3	C3	C3	C3	C3	C2	C2	C2	C2	ABC1	ABC1	7,0

[154] To see how the index was actualized in 2008 see: http://www.aimchile.cl/wp-content/uploads/2011/12/Grupos_Socioeconomicos_AIM-2008.pdf

Incomplete												
Higher Education or more	C3	C3	C3	C3	C3	C2	C2	C2	ABC1	ABC1	ABC1	8,0
% Households by number of goods	3,8	5,7	5,6	9,1	15,2	18,9	15,0	10,3	7,2	5,1	4,2	100,0

Source: Calculated from data taken from ADIMARK.

		Santiago	National Level
ABC1	Upper	11,3%	7,2
C2	Middle-Upper	20,1%	15,4
C3	Middle	25,6%	22,4
D	Middle-low	34,5%	34,8
E	Low	8,5%	20,3

APPENDIX B: Interviewees, first stage fieldwork

Category	Interviewed	Current organization	Relevant previous experience
Risk Management and Data Surveillance	Villaroel, A.	Ripley (financial retail)	Banking industry
	Rivas, C.	La Polar (financial retail)	Banking Industry
	Barría, E.	Scotiabank (bank, consumer division)	Retail Companies and Banks
	Navarrete, F.	BCI (bank, consumer division)	Retail Companies and Banks
	Luco, J.	Presto (financial retail)	Retail Companies and Banks
	Olivarí, P.	Banco Estado (bank)	Retail Companies and Banks
	Reyes, P.	Caja de Compensación los Héroes (Compensation fund)	Retail Companies and Banks
	Borquez, C.	Scotiabank (commercial bank)	Retail Companies and Banks
	De la Fuente, T.	Cencosud (financial retail, retail bank)	Retail Companies and Banks
Marketing Agencies		OMD (marketing agency)	
	Munhóz, N.	OMD (marketing agency)	
	Morales, P.	OMD (marketing agency)	
	Caviéres, A.	Megatime (Market research company)	
	Rivas, S.	Batanga Media (media agency)	
	Ulloa, D.	OMD (marketing agency)	

Department Stores	Patinho, C. (*)	Cencosud (retail department store)	
	Patinho, C (**)	Cencosud (retail department store)	
	Álvarez, A.	Ripley (department store)	
	Cavagnola, P.	Ripley (department store)	
	Zamora, A.	Ripley (department store)	
Regulatory Agencies	Matus, J.	Central Bank	
	Budnevich, C.	Superintendence of Banks and Financial Institutions	Scholar, consultant in the financial industry

(*) Interview conducted in Cencosud´s Offices.

(**) Guided visit to one of Cencosud´s department stores, Shopping Mall "Alto las Condes".

APPENDIX C: Questionnaire second fieldwork

Name	
Address	
Date	
Time beginning	
Time ending	

1) What is your current marital status?
2) How many persons live in this household?
3) How many persons depend on yourself or other adult in this household?
4) How many persons study in this household?
5) What type of school?

a. Municipal
b. Private/subsidized
c. Private
d. Junji
e. Integra
f. Kindergarten

6) Do you know the associated costs? How much is it?
7) How do you finance education? (scholarships, loans, income, etc.)
8) What is your current occupational status? What do you do in your job? Do you have a work contract?
9) Do you save for retirement through a Pension Fund?
10) Do you have unemployment insurance?
11) What is the health plan of you and your family? How much do you pay?
12) What is your main source of income?
13) Do you receive income from:
a. Alimentary pension
b. Relatives living abroad
c. Solidary Pension for retired workers
d. Handicap Pension
e. Familiar Subsidy
f. Water Subsidy
g. Social Protection System
h. Family Allowance
i. Another state´s subsidy

14) What is the type of your home?
a. House
b. Housing cité
c. Condo
d. Department
e. A room in a house or department
f. A room in an old house
g. Social dwelling

15) Are you homeowner?
16) What do you think is the current value of this house?
17) How big is this house? (square meters)
18) How did you acquire this house?
19) Are you currently paying a mortgage? How much?
20) Have you renegotiated your mortgage?
21) Do you or any other member of this household have another real state property?
22) Do you or any other member of this household have any of these financial instruments?

	Member 1	Member 2	Member 3	Member 4	Member 5	Member 6
Bank credit card and overdraft line						
Department store credit card						

1) Do you or any other member of this household have any of these financial instruments?

	Member 1	Member 2	Member 3	Member 4	Member 5	Member 6
Bank Loan						
Loan with financial institution						
Loan with a department store						
Car Loan						
Social Loan						
Educational Loan						

Others						

2) How much do you spend in a normal month on the following items?

	Member 1	Member 2	Member 3	Member 4	Member 5	Member 6
Food and Beverages						
Clothing and footwear						
Bills (water, electricity, gas, internet, etc.)						
Transportation						
Domestic service						
Recreation						
Health						
Other						

APPENDIX D: Interview with heads of Household

- These questions served to start conversations and worked as a guide to reconstruct the credit-stories of families. Many other questions were raised in the course of the interviews.
- Most questions were asked in a colloquial language.
- Local expressions are omitted in this translation.

Dimensions	**Variables**	**Questions**
Social Trajectories	Education	Educational story and current level
	Work	Could you tell me about your labor trajectory? When did you start working? Have you suffered

		unemployment? How many jobs had you? What is your current occupation?
	Family	(When did you get married? How long have you been living together? How many children do you have? How old are they and with whom do they live?) Economically speaking, do you think your situation has changed with time? Tell me about the good and bad times.
	Health	Someone in your family has suffered any health problem that represented an unexpected or major economic burden?
	Intergenerational	How do you see your economic situation with regards to the situation of your parents in general? And with regards to your life-course?
Income	Income trajectories (identifying shocks, turning points, crises, recovery, etc.)	Looking backwards, would you say that you and your family had economic stability? Can you recall any “turning points”?
	Strategies to improve incomes or cope with emergencies	How do you manage your budget during the “bad times”? (acquire debts, restrain consumption, work longer hours, etc.) If you have to save money, what do you do?
	Current Income	How do you arrange your monthly budget with other family members? Do you feel it is enough for you and your family?
	Transferences	Do you assist any other person out of this household? Do you and your family receive assistance from

		someone else?
	Evaluation of Consumption and Expenditures	If you look at your trajectory in the last twenty years, would you say that your expenditures and consumption patterns have changed?
Expenditures and consumption	Budgeting	Are you aware of how much do you spend each month? How do you organize your expenditures? Do assign money specific purposes? How much do you spend on what items?
	Decision making	How do you decide what things should be bought in a normal month? How do you arrive at such decisions?
	Timing	How do you organize your expenditures in a normal week/month/year? How many times do you buy groceries in a normal month?
	Consumption practices	Where do you carry these purchases? Do you go “shopping”? When you do shopping, do you buy stuff or look around? Do you plan these purchases?
Indebtedness	Types of debts	You told me you had consumer debts. Could you tell your story with these credits?
	Context of indebtedness	What was your first credit? Why did you acquire such debt?
	Process of evaluation and acquisition	Did you assess the most convenient options in the market?

	Utilization	How did you use these credits?
	Payments	How do you handle your debts? Do you make minimum payments? Have you acquired more debts than necessary?
	Counterfactual	What would have happened if you did not have access to those credits?
Attitudes	Peers	Do you have friends, relatives or people you know that use credits?
	Values	What do you think about using these credits? Do you think they are essential for Chileans? Do you think they helped you?
	Credit and courses of action	Do you think that you can do more things with your credit card?

<u>APPENDIX E: Logistic Regressions</u>

Odds Rations, Having a Bank Loan Debt

Independent Variables		Model 1	Model 2	Model 3	Model 4	Model 5
Gender	Female	-	-	-	-	
	Male	1.223	1.228	1.110	1.108	1.120
		(0.162)	(0.164)	(0.148)	(0.148)	(0.150)
Age Group	Less than 35	-	-	-	-	
	35-49	0.909	0.880	0.868	0.844	0.811
		(0.164)	(0.157)	(0.155)	(0.152)	(0.145)
	50-64	0.948	0.950	1.005	0.862	0.863
		(0.178)	(0.178)	(0.187)	(0.164)	(0.164)
	Over 65	0.397***	0.412***	0.560**	0.439***	0.455***
		(0.107)	(0.115)	(0.158)	(0.126)	(0.135)
Educational Level	Primary	-	-	-	-	
	Secondary	1.416*	1.389	1.351	1.109	1.107
		(0.289)	(0.283)	(0.276)	(0.235)	(0.235)
	Graduate	2.227***	2.152***	2.069***	1.307	1.314
		(0.478)	(0.470)	(0.453)	(0.310)	(0.312)
	Postgraduate	2.692***	2.584***	2.434***	1.179	1.154
		(0.542)	(0.530)	(0.500)	(0.271)	(0.266)
Number of household members		1.164***	1.125***	1.124**	1.034	1.040
		(0.0401)	(0.0505)	(0.0510)	(0.0490)	(0.0497)
Members generating expenditures on education	None		-	-	-	
	One		1.134	1.114	1.233	1.200
			(0.210)	(0.207)	(0.230)	(0.227)
	More than two		1.267	1.281	1.486*	1.433*
			(0.259)	(0.260)	(0.304)	(0.293)
Occupational Status	Unemployed			-	-	-
	Employed			1.863***	1.549**	1.558**

				(0.380)	(0.323)	(0.325)
Income Group	1-5 deciles				-	-
	6-8 deciles				2.232***	2.116***
					(0.438)	(0.433)
	9-10 deciles				3.225***	2.975***
					(0.620)	(0.604)
Homeownership	Other					-
	Own Paid					1.094
						(0.171)
	Own Paying					1.601***
						(0.290)
	Constant	0.0569***	0.0580***	0.0369***	0.0425***	0.0385***
		(0.0163)	(0.0173)	(0.0119)	(0.0140)	(0.0125)
	Observations	3,828	3,828	3,828	3,828	

Survey: Logistic regression

Number of strata = 1 Number of obs = 3828

Number of PSUs = 3828 Population size = 3847952

Design df = 3827

F(15, 3813) = 9.85

Prob > F = 0.0000

Odds Ratios, Having a Bank Credit Card Debt

Independent Variables		Model 1	Model 2	Model 3	Model 4	Model 5
Gender	Female	-	-	-	-	
	Male	1.419***	1.438***	1.378**	1.368**	1.391**
		(0.191)	(0.195)	(0.200)	(0.200)	(0.206)
Age Group	Less than 35	-	-	-	-	
	35-49	1.266	1.176	1.170	1.145	1.168
		(0.209)	(0.197)	(0.196)	(0.196)	(0.203)
	50-64	0.833	0.830	0.851	0.717*	0.817
		(0.146)	(0.145)	(0.147)	(0.126)	(0.150)
	Over 65	0.833	0.830	0.851	0.717*	0.817
		(0.146)	(0.145)	(0.147)	(0.126)	(0.150)
Educational Level	Primary	-	-	-	-	
	Secondary	2.563***	2.481***	2.454***	1.998***	1.964**
		(0.662)	(0.644)	(0.641)	(0.533)	(0.522)
	Graduate	4.740***	4.424***	4.354***	2.611***	2.497***
		(1.234)	(1.176)	(1.161)	(0.719)	(0.696)
	Postgraduate	9.989***	9.201***	8.976***	3.817***	3.543***
		(2.541)	(2.401)	(2.351)	(1.067)	(1.003)
Number of household members		1.086**	1.010	1.008	0.916*	0.933
		(0.0420)	(0.0505)	(0.0505)	(0.0487)	(0.0495)
Members generating expenditures on education	None		-	-	-	
	One		1.107	1.099	1.237	1.179
			(0.191)	(0.191)	(0.218)	(0.213)
	More than two		1.575**	1.583**	1.881***	1.780***
			(0.318)	(0.319)	(0.383)	(0.370)
Occupational Status	Unemployed			-	-	-
	Employed			1.310	1.039	1.018
				(0.324)	(0.251)	(0.243)
Income Group	1-5 deciles				-	-

	6-8 deciles				1.854***	1.821***
					(0.375)	(0.377)
	9-10 deciles				3.865***	3.698***
					(0.739)	(0.738)
Homeownership	Other					-
	Own Paid					0.674**
						(0.115)
	Own Paying					1.479**
						(0.290)
	Constant	0.0324***	0.0363***	0.0299***	0.0393***	0.0407***
		(0.0102)	(0.0118)	(0.0104)	(0.0139)	(0.0145)
	Observations	3,828	3,828	3,828	3,828	

Number of strata = 1 Number of obs = 3828

Number of PSUs = 3828 Population size = 3847952

Design df = 3827

F(15, 3813) = 22.03

Prob > F = 0.0000

Odds Rations, having Department Store Debt

Independent Variables		Model 1	Model 2	Model 3	Model 4	Model 5
Gender	Female	-	-	-	-	
	Male	0.952	0.952	0.921	0.924	0.922
		(0.0961)	(0.0961)	(0.0955)	(0.0960)	(0.0958)
Age Group	Less than 35	-	-	-	-	
	35-49	0.899	0.918	0.914	0.916	0.863
		(0.130)	(0.134)	(0.134)	(0.135)	(0.131)
	50-64	0.740**	0.760*	0.775*	0.782	0.735*
		(0.111)	(0.115)	(0.117)	(0.120)	(0.117)
	Over 65	0.419***	0.460***	0.503***	0.505***	0.470***
		(0.0725)	(0.0806)	(0.0959)	(0.0974)	(0.0944)
Educational Level	Primary	-	-	-	-	
	Secondary	1.297**	1.288*	1.278*	1.264*	1.277*
		(0.167)	(0.167)	(0.166)	(0.168)	(0.170)
	Graduate	1.460**	1.467**	1.449**	1.461**	1.505**
		(0.218)	(0.222)	(0.220)	(0.241)	(0.248)
	Postgraduate	0.793	0.801	0.785	0.851	0.869
		(0.116)	(0.119)	(0.118)	(0.151)	(0.152)
Number of household members		1.236***	1.215***	1.215***	1.213***	1.211***
		(0.0405)	(0.0480)	(0.0480)	(0.0502)	(0.0497)
Members generating expenditures on education	None		-	-	-	
	One		1.472***	1.460***	1.475***	1.459***
			(0.193)	(0.193)	(0.196)	(0.193)
Occupational Status	More than two		1.116	1.117	1.133	1.121
			(0.171)	(0.171)	(0.176)	(0.174)
	Unemployed			-	-	-
	Employed			1.189	1.174	1.199
				(0.165)	(0.165)	(0.167)

Income Group	1-5 deciles				-	-
Income Group	6-8 deciles				1.226*	1.165
					(0.148)	(0.142)
	9-10 deciles				0.887	0.826
					(0.113)	(0.107)
Homeownership	Other					-
						1.285**
	Own Paid					(0.153)
	Own Paying					1.458**
						(0.221)
	Constant	0.0443***	0.0475***	0.0370***	0.0364***	
		(0.00956)	(0.0105)	(0.00897)	(0.00940)	
	Observations	3,828	3,828	3,828	3,828	

Number of strata = 1 Number of obs = 3828

Number of PSUs = 3828 Population size = 3847952

Design df = 3827

F(15, 3813) = 10.09

Prob > F = 0.0000

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I. Current Position and areas of interests

- Since 2011. Doctoral candidate at Max Planck Institute für Gesellschaftsforschung, Cologne, Germany.
- Current Research Project: “Micro-foundations of Financialization: Status Anxiety and the Market for Consumer Credit in Chile”
- Areas of interest: Economic Sociology, Political Economy, Applied Research, and Social Theory.
-

II. Education

- 2008 Bachelor´s degree (Sociology, five years degree) Universidad Alberto Hurtado.

III. Grants

- 2010. Universidad Alberto Hurtado, Chile. Young researcher contest, The Institutional Embeddedness of the Consumer Credit Market.
- 2009. National Commission for Scientific and Technological Research CONICYT, Chile. Scholarship for Doctoral Studies in 2011.
-

IV. Publications

- González, F. (2015) “Where are the consumers? Real Households and the Financialization of Consumption” in Cultural Studies, 1-26.
- González, Felipe (2010) “Los contornos sociales del emprendimiento” Revista Agenda Pública, Universidad Miguel de Cervantes.
- González, Felipe & Moreno, Marco 2009 “Bicentenario de la República y Agenda estratégica de país” FLACSO Chile, Serie de documentos electrónicos N°1, Septiembre 2009.
- PNUD (2009) “Desarrollo humano en Chile Rural”. Programa de las Naciones Unidas para el Desarrollo

- Gozález, Felipe & Mena, Rodrigo (2009) “Lo Rural como construcción sociopolítica” en Revista Latinoamericana de Desarrollo Humano N° 57 Junio. PNUD
- González, Felipe & Mena, Rodrigo (2008) “Relación sujeto rural y medioambiente bajo la óptica de los proyectos PPS” Revista Interdisciplinaria de Antropología Rural. Revista en digital disponible en www.antropologiarural.cl

V. Conference paper

- González, Felipe (2014) “Consuming Credit in a Context of Improvement: the mobilization of finances in two Chilean middle class families. July 10-12, 2014, The Institutional Foundations of Capitalism, SASE Conference, University of Chicago and Northwestern University.
- Ossandón, José & González, Felipe (2010) “The Institutional Embeddedness of the Consumer Credit Market” Jornadas Estudios Sociales Economía – IDEAS, Buenos Aires. (Presented by Felipe González).
- Ossandón, José & González, Felipe (2010) “Producing and Contesting Social Classifications in the Consumer Credit Industry: Exploring the information sharing controversy in Chile.” SASE Annual Meetings Governance Across Borders: Coordination, Regulation, and Contestation in the Global Economy. Temple University, Philadelphia

VI. Teaching Experience

Principal Lecturer

- 2010. Economic Sociology, Sociology Department, Universidad Alberto Hurtado. 2009. Economic Sociology, Sociology Department, Universidad Alberto Hurtado. (with Stefano Palestini).

Assistant Tutor, Universidad Alberto Hurtado

- 2008 Introduction to Sociology, first year undergraduate course, Psychology.
- 2008 Social Theory IV, Jürgen Habermas, fourth year undergraduate course Sociology.
- 2008 Social Theory II, The Frankfurt School and Symbolic Interactionism, second year undergraduate course, Sociology.
- 2007 Social Theory II, The Frankfurt School and Symbolic Interactionism, second year undergraduate course, Sociology.
- 2007 Introduction to Sociology, first year undergraduate course, Psychology.

VII. Other applied research experience

- 2010-2011. Universidad Alberto Hurtado. Academic and researcher Department of Sociology.
- 2010-2011. Universidad Central de Chile. Political Science and labor market in Chile. Coordinator and researcher of the team directed by: Marco Moreno PhD.
- 2010 United Nations Development Program (UNDP). Millenium Development Goals project, Tarapacá region.
- 2010 Social Science Institute (ICSO), Universidad Diego Portales. Consumer Credit and Risk in Chile, assistant researcher.
- 2009 Social Science Institute (ICSO), Universidad Diego Portales. A thoughtful look at the social sciences in Chile, assistant researcher.
- 2009 Latin American Faculty of Social Sciences (FLACSO, Chile). Bicentennial of the republic and country strategic agenda. Qualitative research about the strategic agenda of the Chilean elite at the gates of the bicentennial.
- 2008 Latin American Faculty of Social Sciences (FLACSO, Chile). Social statistics of Chile and the current development actors. A research for the cooperation project between Spain and Chile.
- 2008 Educational Research and Development Center (CIDE). Ford Foundation project about the social contradictions of the public and private educational system in Chile.
- 2008. United Nation Development Program. Methodological supervision of the Human Development Survey 2008
- 2007-2008. United Nation Development Program (UNDP). Consultant for the Human Development Report in the Rural Chile
- 2007. United Nation Development Program (UNDP). Research about the sociopolitical construction of rurality in Chile, a conceptual history Approach.

VIII. Methodological and ICT Skills

Experience in both quantitative (SPSS, Stata, Excel) and qualitative social research (NVivo). Experience in conducting in-depth interviews and qualitative surveys. Knowledge of descriptive and inferential, univariate and multivariate statistics. Advance user of Microsoft Office Pack.

The International Max Planck Research School on the Social and Political Constitution of the Economy (IMPRS-SPCE) is a joint international PhD Program of the Max Planck Institute for the Study of Societies (MPIfG) and the Faculty of Management, Economics and Social Sciences of the University of Cologne. Its research explores the relationship between the modern economy and its social and political foundations. Building on a long tradition in sociology and political science, the school aims to combine and develop the approaches of new ecconomic sociology, comparative political economy, organization studies, and history. The Studies on the Social and Political Constitution of the Economy are a doctoral thesis series featuring dissertations by PhD students who have successfully completed the graduate training program of the IMPRS-SPCE.

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