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REVIEW ESSAY

# Innovating and improvising the social contract in the US financial borderscape

**The Unbanking of America: How the Middle Class Survives**, by Lisa Servon, New York, Houghton Mifflin Harcourt, 2017, 272 pp., US$27 (hardback), ISBN 978-0-544-60231-1

**The Financial Diaries: How American Families Cope in a World of Uncertainty**, by Jonathan Morduch and Rachel Schneider, Princeton, NJ, Princeton University Press, 2017, 248 pp., $27.95 (hardback), ISBN978-0-691-17298-9

Why do 'middle-class' people with checking accounts use check cashers and hide their savings under mattresses? Why do people with full-time jobs, moderate incomes, and their own homes feel insecure and find it hard to save? Questions like these lie at the heart of two recent books from Lisa Servon, and Jonathan Morduch and Rachel Schneider. *The Unbanking of America* (here forward *Unbanking*) and *The Financial Diaries* (here forward *Diaries*), respectively, are timely attempts to provide deeper views of the lives of those caught in the interstices of the US financial borderscape: a growing zone increasingly populated by 'middle-class' households, where new risks and uncertainties are ameliorated through improvised repertoires of financial products and practices that map poorly onto traditional categories of 'mainstream' and 'fringe', 'formal' and 'informal', or 'included' and 'excluded'. Both books are written from methodological vantage points that allow for new stories to be told about life on the financial fringes that explode mythologies and prejudices about the financially marginalized and the taken-for-granted categories through which they have been understood by policy makers and academics.

Servon's *Unbanking* achieves this unique perspective through an ethnographic account that starts with her experiences as a teller-in-training at a South Bronx check casher and Oakland payday lender and weaves its way through the lives of her coworkers and customers. In the process, connections are made between the micro and the macro – between, for example, the 'strange' rationalities of the 'under-banked', the restructuring of the banking industry and the downward (re)distribution of social risk.

Morduch and Schieder's *Diaries* is similarly concerned with finding new ways to see the connections between the downward distribution of risk and the financial practices of households. Their work is premised on the idea that traditional methods for statistically picturing poverty and household financial stability render new and growing forms of inequality and precariousness invisible. Datasets like the Panel Study of Income Dynamics or the Survey of Household Economic Decision-making lack the temporal resolution to capture the pace of real-life, thereby obscuring month-to-month and week-to-week ups and downs, and cancelling out the 'noise' that tells the most revealing stories. To create a database more in sync with the rhythms of real-life, Murdoch, Schneider, and their team recruited more than 200 low- and moderate-income households[1] to keep diaries and track every dollar they earned, spent, saved, borrowed, or gave away for a year. The book that emerges is an ambitious effort to translate, for (mostly) lay and policy audiences, the intimate data of daily financial life into vignettes that help explain the growing sense of precariousness now common on once-secure rungs of the socio-economic ladder.

Indeed, both books are exemplars of public scholarship – rigorous research that eschews peer-reviewed journals in favor of non-academic audiences.[2] My aim in this review is to (re)interpret these works of public scholarship from a cultural economy perspective. Rather than recapitulate findings (there are too many), this review will treat each book as an example of economics 'in the wild' (Callon and Rabeharisoa 2003) and consider the work they do to (re)make the worlds they describe: how do they challenge existing theories, what new debates do they instigate, what practices do they encourage, and what controversies do they elide? In answering these questions, I outline some of the common premises of *Diaries* and *Unbanking* before considering their (often implicit or unaddressed) implications for various matters of concern, including the role of finance in the regulation of poverty, the (re)conceptualization of economic citizenship, and the role of financial innovation in both constructing new markets and blurring distinctions between the 'formal' and 'informal'.

There is much that these books have in common, including their primary antagonist. Both find new ways to challenge resilient myths that poverty and precarity originate in personal pathologies and deficiencies: lack of responsibility, knowledge, willpower, and other moral failings. They also offer familiar and broadly similar alternative etiologies of household financial hardship rooted in a combination of state, labor market and financial sector restructuring. Citing Hacker's *The Great Risk Shift* (2008), they describe how structural changes in US capitalism have concentrated risk at the household level while at the same time undermining stable forms of employment and access to safe and affordable financial products increasingly necessary to smooth volatility in expenses and income. Their key extension of Hacker is to use personal stories to illustrate how the reallocation of risk from collective institutions and employers to households has allowed financial insecurity to creep up the income ladder farther and faster than conventional metrics of poverty and inequality acknowledge, let alone popular understandings of who is poor and what poverty looks like.

This upward creep of risk, uncertainty, and instability provides the underlying epistemological challenge of both books: how to study, understand, and improve the well-being of this new financial subject whose struggles are hard to see in conventional data sources and does not necessarily fit popular images of someone in need? It is important to note that neither *Diaries* nor *Unbanking* are focused on the financial lives of those at the bottom of the income distribution or the 'financially excluded', *per se*: more than a quarter of *Diaries* households earned more than 200% of their area's adjusted poverty line (supplemental poverty measure), and the users of the 'alternative' financial services at the center of *Unbanking* are often people with average incomes, college degrees, and their own homes and businesses. The term LMI (low-to-moderate income), preferred by Morduch and Schneider, does not do justice to this new population of concern. Servon is more willing to entertain the possibility that a new species of financial citizen has evolved in the aftermath of the financial crisis – a novel category she gestures at with terms like the 'new middle class' or the 'new non-prime'. But, regardless of nomenclature, both books take for granted that the better objectification of this new socio-financial chimera (with the trappings of the middle class and the problems of poverty) is a prerequisite for the improvement of its material conditions. Put in Foucauldian terms, they are constructing a new object of government so that the right products and policies can be devised to make it live better (Foucault 2003, see also Kear 2013). However, in neither account are the primary agents of this better government representatives of the state; rather, they are market actors – entrepreneurial financial 'innovators' who will devise 'safe' and 'affordable' products tailored to the needs of the precarious.

Both books do discuss policy reform and regulation in addition to providing compelling anecdotes that demonstrate the endemic mismatch between social assistance programs and people's actual lives/needs, but relative emphasis is placed on markets and the ameliorative potential of financial innovation. In the case of *Diaries*, this is unsurprising given Schneider's longtime affiliation with the Center for Financial Service Innovation (CFSI), but *Unbanking* also devotes an entire chapter to admiring profiles of firms – 'The Innovators' – that have emerged from a coterie of 'entrepreneurs with background in engineering [and] finance … [who] believe they can make the world a better place while providing safe, affordable, financial products and services to the growing number of people that need them' (Servon 2017, p. 145). There are three insights I want to draw out from each book's emphasis on the 'potential for innovative finance to solve major social problems' (CFSI 2018).

First, though neither book uses the term 'financialization' (this is not a criticism), they both demonstrate the hegemony of finance. They tacitly acknowledge that today, struggles over equity, wellness, stability, as well as many other things, must be fought within the financial system rather than against it. 'American families cop[ing] in a world of uncertainty' are less in need of protection from usurers (i.e. kept outside the system) than they are in need of fintech entrepreneurs to disrupt the consumer financial industry with new products and services. Second, each, while extoling the virtues of financial innovation, reveals its Janus-faced character. Despite the favorable casting of specific innovators, Servon, for instance, also details the sneaky-smart innovations banks use to maximize fee revenue from their most marginal clientele (e.g. inducing overdraft charges by resequencing transactions, withdrawing seven days a week while depositing only five, etc.). From this perspective, innovation is, to paraphrase Homer Simpson, both the solution to, and the cause of, all of the consumer financial industry's problems.

Third, it is much easier to sell innovative products to insecure consumers than to intractable structural problems. I make this tongue-in-cheek observation because many of the exemplary innovators described by Servon, Murdoch and Schneider provide products and services designed to compensate for personal deficiencies in contrast with their own accounts of the structural origins of the new middle class's present predicament. For example, an app that makes an end run around 'self-discipline' (Morduch and Schneider 2017, p. 78) by automatically saving income spikes and automatically returning them when income dips, while a cool idea, suggests that a household's lack of savings comes down to insufficient willpower or simple disorganization. Regardless of the merits of gamified savings platforms or more inclusive risk-scoring metrics and other product ideas, the innovations proffered in both books are simply out of proportion with the authors' own diagnoses of the financial challenges faced by US households. Better, more innovative markets are clearly not enough, but each book grapples with the limits of financial innovation differently. When markets are inadequate, how should credit, and financial products more generally, be distributed? To what forms of finance are citizens entitled?

As Krippner (2017, p. 2) notes, the wide 'availability of credit has … transformed the terrain of economic citizenship … especially as access to credit has increasingly become a substitute for wage income'. *Unbanking* and *Diaries* provide remarkably compelling empirical support for this thesis, yet neither overtly frames the consumer financial market as 'a site where individuals assert [citizenship] claims over the control of economic resources' (Krippner 2017, p. 1). *Unbanking* comes close in several places, and most forcefully in the final chapter where Servon calls for a 'financial rights movement with a manifesto that clearly lays out Americans' right to financial products and services that are safe, affordable, fair, transparent, and universally available' (176). To mend the broken US financial system, 'we need a shared understanding that access to good financial services is a right, not a privilege of the fortunate few' (178).

While Servon must be applauded for considering how the financialization of everyday life is reshaping the social contract, her call for the recognition of new financial rights is not a new one, and is made with little historical or theoretical context. In 1968, legal scholar Arthur R. Miller argued before Congress that consumer credit had become such a 'commonplace' and 'basic aspect of contemporary financial life' that the industry could 'no longer be permitted to hide behind that conclusory epithet that credit is a "privilege" and not a "right"' (US House 1970, p. 185). Today, credit is far, far more 'commonplace', and central to everyday life than it was in 1968, yet access to financial services is no closer to becoming a 'right'. Lack of political will, no doubt, has something to do with this, but there are more fundamental reasons to question the compatibility of rights and the logic of risk-based pricing (see Kear 2013). There is something contradictory about an analysis of growing risk inequality that seeks to abate such socio-economic polarization by guarantying access to an industry whose primary product (credit) is rationed by ranking customers according to risk and charging the most insecure among them the highest premiums. This is not evidence of a broken system, it is the determinate logic of finance: lenders that do not charge risky borrows more do not stay in business very long. This is not a criticism of *Unbanking*: what it means to financialize the social contract (or resist it) is indeterminate and, remarkably, Servon has managed to bring such discussions into the public sphere.

At the same time that *Unbanking* and *Diaries* delineate a new object of government and provoke questions about the financial rights of citizens, they deconstruct a variety of familiar categories used by academics, policy makers, and the public to organize their thinking about life on the financial borderscape. Terms like banked, unbanked, underbanked, formal, informal, mainstream, included, excluded, fringe, alternative, etc. while not abandoned by Servon, Murdoch and Schneider, are questioned and made fuzzy. Here, Servon is upfront about her normative motivations: 'labeling people as un- or under-banked implies that they are somehow deficient, that they've made the wrong choices' (XVII). But these books deal the most damage to these categories through the stories they tell about how people actually manage the risks that have been shifted onto their shoulders. People's survival strategies are contingent, improvised, and hybrid: mainstream and alternative, formal and informal. Families share bank accounts so they can informally 'lend' each other money, they transform the tax system into a savings device by 'overwithholding', they use check cashers to avoid the slow processing times of banks, they use credit cards to build credit and informal loans to purchase what they cannot pay off in a month. To cope with periods of illiquidity people save, earmark, borrow, share, do odd jobs, and so much more. These practices intermingle in so many permutations they overflow the conceptual containers that have been built for them. Though neither book uses the term, they repeatedly testify to the hybridity of financial relations and practices. Both *Diaries* and *Unbanking*, citing Zelizer (1997), also remind us that monetary relations are also social relations, and that it is often social connections that people bring into, back to and away from particular monetary spaces. Here *Unbanking* is particularly insightful, showing how discrimination in 'mainstream' monetary spaces (i.e. banks) has made the building of personal relationships, trust, and loyalty (22) – generally associated with informal monetary relations – into a component of the high-volume, 'transactional' business models of brick-and-mortar payday lenders and check cashers.

In highlighting the relational character of the 'fringe' financial industry, Servon also attempts to subvert negative and misleading clichés about it. However, in describing check cashers and payday lenders as places 'where everybody knows your name' (Servon 2017, p. 22), she risks replacing one cliché with a 'positive version of the same misshapen social figure' (Wacquant 2002, p. 1520). Yes, payday lenders are not devils and banks are not angels, and there is a need to disrupt the narrative that banks are 'the goods guys' that makes a bank account the (low-hanging) *telos* of too many financial empowerment initiatives. However, in telling the non-bank side of the story, *Unbanking* at times gives itself over to uncritical Micheal-Lewisesque profiles of payday and check cashing executives, complete with family histories, notes about pets and penchants for quoting Hegel. The effect of these textured accounts is to vouch for the good-natured credibility of these highly interested leaders of businesses with serious public relations problems. Perhaps providing a sympathetic platform was part of 'verifying that [Servon] was not on a witchhunt' (76), but her efforts to show that her coworkers and their bosses are not cartoon villains and their customers not poor-choosing financial insophisticates combine to let the industry off the hook. Just because in the broken US financial system using a check casher or payday lender is often the best (or only) choice, it does not follow that the industry is not exploitative and usurious. In *Unbanking*, the alternative financial industry is given voice – one that is wise, friendly and able to explain away its sins – but little agency and responsibility.

*Diaries'* critical blind spots are located elsewhere and express themselves in an insensitivity to potential overlaps between innovation and the appropriation/commodification of informal financial practices and social relations. For Morduch and Schneider blurring the formal and informal is akin to cross-pollination and is the source of novel product and service ideas. These connections are most clearly articulated in their chapter on 'Sharing', where they call for formal 'lending institutions to draw on the core insights of informal financial relationships in order to better serve financially struggling families' (147). Anthropologists have long recognized (Geertz 1962) that scarcity motivates improvisation to improve credit access. *Diaries* does more than provide a new window on such improvisation; it shows how such cobbled solutions might be reengineered into 'new' financial products and sold back to 'excluded' communities and liquidity-constrained households. For Murdoch and Schneider, the potential to mix the 'best aspects of both informal and formal financing' (142) to create new consumer financial innovations has been greatly enhanced by advancements in technology and data analytics. One example featured by *Diaries* is a failed startup called Vouch, founded by ex-PayPal and Prosper VPs and described by TechCrunch (Perez 2015) as a 'social network for credit'. As Morduch and Schneider explain, 'creditworthiness is networked' (143).[3] When friends and family lend each other money, they make decisions (how much, how long, how flexible, etc.) based on tacit knowledge that is usually acquired unintentionally through what they describe as 'high-touch' methods, which are hard and expensive to replicate using traditional information gathering techniques and underwriting models. The basic idea behind Vouch was to outsource the cost- and information-intensive process of underwriting and debt collection to a borrower's friends and family by having them 'vouch' for applicants. These 'vouches' would take the form of promises to pay varying amounts (presumably based, in part, on confidence in the borrower) in the event of default. True, this is no doubt an innovative way to directly convert social capital into economic capital (Bourdieu 2002) that could expand access to credit for certain groups; however, it also seems likely to create new debt burdens and shift the associated risk from lenders to debtors whose creditworthiness is a function of their ability to transfer risk to those in their social networks. Such innovative subsumption of the informal seems unlikely to distribute risk to 'those most able to assess [it] and … most able to bear it' (128), a principle the authors elsewhere espouse. Moreover, Morduch and Schneider give little consideration to how such innovative commercialisations of informal practices might transform the social relations that undergird such practices (Kear 2016). As Elyachar (2005) has shown, leveraging social capital in this way can be culturally appropriative and lead to forms of dispossession.

Before concluding, I want to discuss the important role played by economic performativity in *Diaries*. By performativity, I mean the effects produced by efforts to create a world where the models of economics are true. While Morduch and Schneider do not use the term performativity, I suggest *Diaries* is an effort to unmake the world that has been created by decades of housing, education, and retirement policy designed to make people behave *as if* Modigliani's life-cycle model were true. That is to say, an immense political-economic apparatus has been constructed over many decades to encourage households to organize their investment and savings behavior based on an assumption that their lives will follow a long and continuous arc of increasing income followed by a graceful dissaving into old age. If life conforms to this model, it make sense that one should focus on saving for major 'life-cycle' events – degrees and diplomas, mortgages, retirements, etc.. The problem is, as Morduch and Schneider argue, that assuming everyone ought to save in accordance with the life-cycle model is misguided and costly. Life for a growing number of Americans is far more turbulent than the life-cycle model suggests, and orienting saving and investment around life-cycle events can leave households vulnerable – unable to spend when income and expenses spike and fall from week to week. Regardless of a model's truth or falsity, managing an economy, or a household's well-being, based on such a model gives that model the ability to produce real-life dynamics, which make it 'effectively performative' (Mackenzie 2008, p. 17). *Diaries* shows how the practical application of the neoclassical life-cycle ideal has created unique economic dynamics detrimental for those on the financial margins.

So, why has life-cycle theory been allowed to misguide welfare policy and peoples financial lives for so long? Here, Morduch and Schneider betray a naïve positivist faith in data. The life-cycle model has continued to disparage those who do not fit it and made it harder to design policies tailored to people's actual needs because much of the turbulence experienced by households is invisible in traditional databases (e.g. the Census). *Diaries* is an effort to generate new more intimate data that can refute life-cycle theory and counter its (malignant) performative power. With the increasingly dubious life-cycle theory slayed, Morduch and Schneider reveal a new way forward, toward better theories, policies, and products. While I see less salvation in better data and am more pessimistic about the ability of grounded methods to affect policy change, *Diaries'* revelations of increasing relative and absolute income volatility on the lower tiers of the US income distribution is a reminder that poverty, though not a new problem, is not static. One model will never do, and both *Unbanking* and *Diaries* show that models are dangerous when they become normative, and must occasionally undergo creative destruction.

The setting for both *Diaries* and *Unbanking* is what I have termed the financial borderscape: a growing space with fuzzy edges where everyday reality is hard to distil through statistical methods and traditional data sources. Each of these books, using ethnographic techniques, succeeds in opening a new window onto this landscape. They are ambitious and successful examples of public scholarship, which offer many unexplored entry points into debates about the changing nature of poverty, the distribution of risk, the role of financial innovation in managing precarity, the emergence of new financial subjectivities, the meaning of financial citizenship, and the role of performativity in social welfare policy, as well as many others. These are valuable books for the heterodox economist's bookshelf, and remarkable examples of accessible scholarship that will make fantastic teaching resources.

## Notes

1. While not a nationally representative sample, *Diaries* participants cover a diverse cross-section of the US population – geographically, ethnically, etc. The project began in 2012.
2. Servon has recently published a number of academic articles drawing on the same fieldwork as *Unbanking*.
3. See also Schuster (2014) on the 'social unit of debt'.

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