

In the Shadow of the Welfare State: The Role of Payday Lending in Poverty Survival in Australia

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Abstract

A defining characteristic of contemporary welfare governance in many western countries has been reduced direct involvement by the state in social service provision. One of the unintended consequences of devolutionary trends in social welfare is the development of a 'shadow welfare state' (Fairbanks, 2009; Gottschalk, 2000), which is a term used to describe the complex partnerships between state based social protection, voluntarism and marketised forms of welfare. Coupled with this development, conditional workfare schemes in countries such as the United States, Canada the UK and Australia are pushing more people into informal and semi-formal means of poverty survival (Karger, 2005). These transformations are actively reshaping welfare subjectivities, the role of the state and urban governance. Like other countries, such as the US, Canada and the UK the fringe lending sector in Australia has experienced considerable growth over the last decade. Large numbers of people on low incomes in Australia are turning to non-mainstream financial services, such as pay-day lenders, for the provision of credit to make ends meet. In this paper we argue that the use of fringe lenders by people on low-incomes reveals important theoretical and practical insights into the relationship between the mixed economy of welfare and the mixed economy of credit in poverty survival and anti-poverty strategies.

Introduction

Our aim in this paper is to explore the growth of fringe financial lenders within the broader context of institutional change in Australia's welfare state arrangements. Similar to other liberal welfare states, such as the USA, Canada, the UK and New Zealand, Australia has a mixed economy of welfare where the non-profit and the private sector play a substantial role in the delivery of social services. While there have been numerous studies of the implications of contract and privatised welfare within this group of countries, there has been less research on the street-level businesses that are playing an unacknowledged role in poverty management through the provision of high cost, short term credit to citizens on low incomes. These private sector credit providers do not see themselves as providing a welfare service; nonetheless they are playing a significant role in poverty management strategies in geographical areas where there is a high concentration of socio-economic disadvantage (Karger, 2005). As such, it is important to develop some analytical inroads into the human and spatial configurations that play out in these urban contexts and we need to understand how these transformations affect the regulatory strategies of the state in contemporary poverty governance.

Our focus in this paper is on the social relations between lenders and borrowers and the political-economy drivers behind this expanding sector. In terms of political economy we focus on the connection between the growth in the fringe economy and institutional changes in welfare state architecture. The 'fringe lending' sector, which includes cheque cashers, auto-loans and payday loans, has experienced considerable growth in countries such as the US, the UK and Australia (Wilson, 2002; Karger, 2005). Research indicates that fringe lending has a market size of A\$800 million and is the fastest growing part of Australia's financial landscape (Infosys Technologies Ltd, 2008). In this paper our focus is on a specific product and aspect of lending in the fringe economy, called 'payday lending'. A payday loan usually involves a loan of less than A\$1000 in one transaction, although some lenders specialise in larger amounts. These loans aim to assist people to get past an immediate cash shortfall (King and Parrish 2007). The loan term is usually about two weeks, the loan must be paid off in full at the end of the term, and fees are charged for the service (Wilson, 2004). If the borrower cannot afford to repay the loan and fee, then they must renew it, paying an additional fee. One of the risks, as will be shown later in the paper, is people who never repay the initial loan and end up in a 'debt trap', where they are taking out multiple loans, sometimes from multiple outlets.

The first payday lender appeared in Australia in 1998 and by 2001 82 payday lending businesses were offering 12,800 loans per month (Wilson, 2004). In the US, which has a longer history with the pay-day lending industry, there are now more pay-day lending outlets than Starbucks and McDonalds combined. In the 1990s there were less than 200

stores across USA, by 2007 more than 25,000 existed (Rivlin, 2011). Online lenders are also growing, but there are no accurate figures on what proportion of the industry the online lenders represent. Each year US citizens spend almost US\$8 billion in fees and interest charges for these payday products, including an average of US\$520 in interest per borrower (Pew Charitable Trust, 2012). Payday loans are marketed as two-week credit products for temporary needs. In the US, however, average consumers are in debt for five months and are using the funds for ongoing, ordinary expenses – not for unexpected emergencies. The high charges these loan products attract have created considerable media and political attention in Australia, the UK and the US. Law reformers and anti-poverty activists are particularly critical of the high fees and interest rates charged on the loan, which when annualised can be in the order of 800-1200% (author and author, 2011). After outlining some of the context of this growth in fringe lending we will theorise the relationship between the welfare state and the fringe economy in more detail, including the relevance for social policy and anti-poverty strategies. We will then examine the policy responses put forward to address growing demand for short term, high cost credit and draw some conclusions about which measures are more likely to be effective.

The economic and sociological context of increasing demand for high cost credit

The brief review of the policy context and research literature outlines some of the reasons that more people are turning to payday loans and other forms of fringe lending to make ends meet. Little social science research is being conducted into the provision of high cost credit, although there have been some exemplary sociological studies that have examined the survival strategies of low income households (Edin and Lein, 1997; De Parle, 2004). There are also social policy scholars who have looked at the less regulated and less recognised methods of poverty survival, such as cash-in-hand work in the ‘black economy’ (Dean and Shah, 2002; Jordan and Travers, 2002). However, very little research has been conducted into the role played by commercial businesses offering low-income people access to credit to manage the consequences of poverty.

From a neo-classical economic perspective, the growth of fringe lenders is a consequence of market supply meeting increased demand, when that demand is not being met by other segments of the financial services industry. In Australia, a survey conducted by the National Financial Services Federation (the peak body for payday lenders in Australia) revealed that 88% of people accessing payday loans did not have access to credit provided by mainstream banks (Smiles and Turner, 2006). Not having access to basic banking and financial services such as bank accounts and insurance products are factors in ‘financial exclusion’ (Burkett and Drew, 2008). Financial exclusion is a term used to describe the proportion of the population who have no access to banking services, are uninsured and have limited or no capacity to raise credit (Connolly, Georgouras and

Hems, 2012). An Australian study found that using this definition, approximately 15% of the Australian adult population is severely financially excluded (Connolly, Georgouras and Hems, 2012). This kind of financial vulnerability may be temporary or enduring. Some members of the community are also more susceptible to financial vulnerability because of geographical location, race, age, or marital status.

Limited access to affordable credit can be traced back to the deregulation of the Australian banking sector in the early 1980s (Scutella and Sheehan, 2006). In Australia, mainstream banks have increasingly discouraged low-income consumers from using their services, both by raising basic transaction costs and by removing financial products tailored to their needs. As far back as the 1990s Leyshon and Thrift suggested that in Australia 'financial capital is retreating to a middle class heartland' (1997: 226). Financial exclusion is also exacerbated by the disempowering experience of mainstream banking. Many borrowers simply assume that mainstream borrowers will not assist them, they are wary of or ineligible for credit cards and they do not trust large institutions (Howell, 2005). Borrowers also struggle with the loan amounts and loan periods available. In many cases banks simply do not provide what low-income borrowers need. Fringe lenders have capitalised on the negative perception of banks and typically provide a quick and easy service and they work hard to make customers feel welcome (Howell, Wilson and Davidson, 2008).

Consumer advocates reframe this friendly service orientation as predatory behaviour. 'Predatory lending' is a term used to describe the unscrupulous ways in which some sections of this growing credit industry entice and induce a borrower to take out a loan with high fees and a high interest rate in a way that is less than transparent (Wilson, 2004). Payday lending industry representatives claim they are offering a service of choice, rather than a service of last resort. The notion of choice is hotly contested in economic and sociological literature on poverty. Recent US research, for example, found that most low income borrowers perceived that they had few, if any, alternatives to payday loans when it came to raising credit (Elliehausen, 2009). In the context of facing a choice about having the electricity cut off or paying a high price for a loan in order to pay a utility bill, it becomes a little easier to see why people will access a high cost loan, regardless of the relatively high charges and fees. On the relationship between poverty and access to fringe lending, Wilson (2004) estimates that around 40% of payday borrowers in Australia are living below the Henderson Poverty Line.

Studies into the typical borrower show that there is some variation between countries in terms of age, family status, race and gender, however, one of the common characteristics is being on a low wage. Researchers have found that in the US the typical payday borrowers are three times more likely to be seriously debt burdened and four times more

likely than all adults to have filed for bankruptcy (Elliehausen and Lawrence 2001). Recent US study shows that those who disproportionately use these products are those who lack a four-year college degree, are home renters, African-American, earn less than US\$40,000 per year, or are separated or divorced (Pew Charitable Trust, 2012). In an Australian study, Wilson (2004) found a lower average income for the typical payday borrower: approximately A\$24, 000 per annum, with many consumers earning less than A\$401 per week.

Another common characteristic of pay-day lending on the demand side is repeat borrowing. In the US context, King and Parrish (2007) found that over 60% of loans go to borrowers with twelve or more transactions a year while the average borrower has more than eight transactions a year. Twenty-four per cent of loans go to borrowers with 21 or more transactions a year; one in seven borrowers has been in payday debt every day of the past six months, and nearly 90% of repeat payday loans are made shortly after a previous loan is paid off. King and Parrish (2007) argue that the payday lending business model actually *depends* on trapping borrowers in loans. It is these kinds of patterns which lead critics to refer to payday lending as the credit market's equivalent of crack cocaine: a highly addictive source of easy money that hooks the unwary consumer into a cycle of debt (Stegman, 2007).

There are a variety of micro-finance alternatives that are attempting to break this pattern of borrowing, with partnerships between banks, community groups and/or government. The uptake of small scale lending activities by banks is often part of their social responsibility activities (see, for example, research commissioned by the ANZ Bank (Chant Link and Associates 2004) and the National Australia Bank's No Interest Loan Scheme (NILS) program with Good Shepherd Youth and Family Service (National Australia Bank, n.d.). While it is important to acknowledge the role of these lenders, many of the community-based microfinance schemes do not meet the same credit need as payday lenders, as the microfinance schemes tend to tie the loans to small capital purchases, rather than provide loans for recurrent items (such as utility bills, rent and food). The federal government, through Centrelink (Australia's national income support agency), does offer a loan product that can be used for recurrent expenditure but is only available for pensioners in the form of an Advance Payment, which is a lump sum advance from future pension entitlement and is repaid from fortnightly pension payments over a period of 13 fortnights. The maximum amount of the loan is A\$1,074. Despite the availability of the Centrelink loan and the community-based microfinance schemes, the payday industry has continued to grow in response to increasing demand for small amounts of quick credit.

The political and economic context of lending has an important bearing on how people engage in the *mixed economy of credit*, which is a term we use to describe the different costs and calculations involved in making decisions about borrowing money from the (1) private sector, (2) the state, (3) family and friends, or (4) through non-government micro-finance schemes. As in the broader mixed economy of welfare, citizens are exercising constrained choices within the mixed economy of credit based on the location of different providers, cost, eligibility and knowledge of available options. This economic and geographical calculus is also influenced by the emotional dimension, as in the feelings of shame or guilt that may be associated with asking parents or friends for a short term loan in societies where economic independence is a marker of a successful transition to adulthood. In this instance, the financial cost may indeed be low, with little or no financial interest charged for the loan, yet the emotional cost associated with taking the loan may be very high. The individual citizen must therefore weigh up the different transaction costs. The emotional dimension of decision making with the mixed economy of credit is an important element in understanding how individual decisions are made (Collins, 2004).

The relationship between the cultural and material dimension of access to credit and poverty survival are important in understanding the nature of the social problem. Singh et al (2005) argue that with the inclusion of the social and cultural perspectives, financial decision-making no longer remains an individual economic issue. Their research discusses different cultural attitudes to money and credit, exploring the way in which culture influences the meaning of money, who money is shared with, management and control of money, attitudes to savings, attitudes to spending and credit and attitudes to financial institutions. So while money is an object – an inert thing – it is also has subjective and affective meanings which influence people's attitudes and behaviour. Through this lens, gaining access to money, and relatedly access to credit, is about attaining achievement and recognition, status and respect, freedom and control.

The moral codes governing decisions about debt also change over time. Margaret Atwood (2008: 32) concludes that a fallout from the Global Financial Crisis is that ‘we seem to be entering a period in which debt has passed through its most recent harmless and fashionable period, and is reverting to being sinful’. While much attention has been given to the high levels of personal financial debt in the US, Australia is by no means immune to the credit binge. In fact, Reserve Bank figures show that Australians now have higher levels of household debt than the average US citizen. On a national scale, household debt equates to 100.4% of Australia's annual GDP, which is one of the highest ratios in the developed world.

While the political debate about the appropriate personal and policy response to greater levels of household debt and failing financial markets continue at the national and international level, there has been much less of a focus on knowledge about the competing pressures and new configurations of economic and social relations between governments, low-income citizens and markets at the local level. Finding productive ways to conceptualise these economic and social relations is important if we are to think clearly about what could or should be done to address growing income inequality and poverty. To appreciate the multi-dimensional nature of this cultural and material space requires practical and theoretical frameworks that are capable of responding to contradictions and complexity at the street-level.

The shadow welfare state

Some scholars argue that the existence of fringe credit providers in urban settings functions as a ‘shadow welfare state’, which is a term used to describe the practice where local level market and voluntary actors fill the gap left by inadequate and patchy state funded welfare services. The term shadow welfare state first appears in 2000 to describe how the private sector involvement in health and welfare in the United States is supported by government policy (see Gottschalk, 2000). The term has since been extended by Fairbanks (2009: 273) who defines the shadow welfare state as denoting:

the many informal assemblages of collective responsibility and self-help operating in the tradition of voluntarism in the post-welfare age. While apparently decoupled from the state apparatus at first glance, myriad configurations of the shadow welfare state have emerged to forge complex partnerships with state systems – primarily in response to devolutionary trends.

The devolutionary trends referred to in Fairbanks's definition reflect the proposition that the state is either outsourcing or withdrawing from direct service provision in key areas of social policy, while at the same time the state remains involved as a regulator and auditor. We recognise that we must be cautious about over extending the metaphor of 'state rollback', given that most western welfare states have historically had a diverse mixed economy of welfare (Harris and McDonald, 2000) and that welfare states are proving more resilient to spending cuts than many of the welfare state crisis theorists would have us believe (Castles, 2004; Whiteford, 2011). Moreover, aggregate figures about overall expenditure on social policy measures tend to hide various troughs and peaks across different policy fields. In Australia, for example, there have been some gains for aged pensioners over the past twenty years, in terms of increases in payment rates, but single unemployed adults receiving the lower rate of Newstart allowance (the name of the unemployment benefit in Australia) are falling further behind. Some writers, such as the political scientist Jacob Hacker (2006) contend that this predicament is entirely predictable in contemporary liberal welfare states, in light of what he refers to as 'the great risk shift' where collective risk pooling is being eroded by various forms of self-management and individualisation of welfare and well-being.

Individualisation of risk and income insecurity has multiple implications. In countries where the level of cash and in-kind benefits provided through formal work and state funded cash transfers is insufficient then people resort to less regulated and less visible forms of economic survival, such as participation in the informal economy of cash-in-hand work (Jordan and Travers, 2002), benefit fraud (Dean and Melrose, 1997) and an increasing use of high cost credit provided by fringe-lenders (Karger, 2005). Arguably the size of the shadow welfare state bears a direct relationship to the extent of universal coverage of the public welfare state. If people are able to manage the social and economic risks of life through secure public and private employment, universal public services and an adequate income support system then we might assume they are less likely to turn to informal and market based forms of welfare (as these forms of provision are crowded out by public sector dominance). As Karger (2006: 15) argues, cost containment welfare reform initiatives and the 'fringe economy' are like two peas in a pod:

Welfare reform has forced the fringe economy to take on some welfare state functions. Specifically, the fringe economy is now an important provider of emergency short-term cash assistance through payday loans, pawns and other forms of credit. In some measure, the fringe economy represents a privatised and expensive de facto welfare state since it offers former recipients emergency cash services no longer furnished by the government.

As a consequence of these institutional shifts there are many small businesses that have quickly established themselves in localities where poverty has become spatially concentrated on the urban fringes of capital cities. In the US, cheque cashiers, payday lenders and pawn shops lease shop fronts that were previously tenanted by retail outlets and local grocery stores (Karger, 2005). A similar spatial pattern emerges in Australia; however, the presence of the bureaucratic welfare state often co-exists in the same geographical space as the private pay-day lending outlets. For example, in outer urban suburbs of major capital cities, Centrelink offices are often on the same street as the payday lenders and these payday lending businesses openly advertise to people on social security benefits through billboards and websites that have slogans, such as 'Pensioners Welcome'. Moreover, the friendly face of the pay-day lender that greets the citizen when they walk in off the street stands in stark contrast to the indifference and disrespect that many people encounter in Centrelink offices in Australia (Murphy et al, 2011; de-Parle, 2004). This contrast between the indifferent state and the friendly face of the payday lender reaffirms the analytical importance of emotion and identity recognition in understanding individual decision making in the mixed economy of credit.

The spatial proximity between the payday lending outlets and the state welfare office is also symbolic of the 'economic interdependence' between the public welfare state and the shadow welfare state. Government provided income support payments to social security recipients are used to secure loans from private lenders and/or used to repay existing loans. In a recent empirical study in Australia of around 120 borrowers it was found that almost 80% of borrowers were on a full-time social security pension or unemployment benefit (Banks et al, 2012). This economic interdependence between government and markets reinforces the classic political-economy thesis that in post industrial revolution societies there is no such thing as a 'natural' self-regulating market (Polanyi, 1944). The state props up and regulates market activity, while in turn market failure provides a justification for state intervention. Within an historical context it is important to acknowledge that individuals and businesses profiting from human misery is not a new concept or practice. Slavery, involuntary servitude and bonded labour are all examples of how profit can be made from those living in poverty. What is somewhat different about the contemporary context is the emerging configuration of self-management, state intervention and the scale of predatory private businesses involved in poverty survival strategies. The next section will discuss the social policy implications of the growing reliance on payday lenders as a poverty survival strategy.

Social Policy implications

The analysis of the context and the available research literature reveals some interesting implications for welfare state theorists and anti-poverty policy makers and activists. The first implication is the size and scale of the fringe lending sector. The fringe economy is growing at a time when welfare state expenditure remains steady as a proportion of GDP in most developed countries (Castles, 2004; Whiteford, 2011). In countries such as the US, where there is more reliable research available, it is evident that the fringe economy has grown to eclipse both income and wealth distribution efforts via government social programs. With an annual volume of A\$230 billion the fringe lending industry easily eclipses the value of cash assistance for working families, such as Temporary Assistance for Needy Families (A\$16.5 billion) and the Earned Income Tax Credit (A\$40 billion) (Committee on Ways and Means, 2008). At a practical level of state provided social policy measures, the existence of the fringe lenders limits the effectiveness of state programs and tax assistance measures, such as government sponsored savings and tax credit schemes because any lump sums can be diverted to repay existing debts to private lenders. Emergency cash relief, often accessed through charities in countries such as the US and Australia, becomes committed to debt repayment rather than buying essential items. And over-indebted consumers place additional strains on government and non-government welfare services (author and author, 2011).

In terms of anti-poverty policy there clearly needs to be a much wider recognition that formal policy responses and workfare strategies assist the growth of the fringe economy and that the fringe economy subverts the effectiveness of state funded social programs. Inadequate wages, ‘bureaucratic disempowerment’ (Lipsky, 1980), in the form of active deterrence from seeking state assistance, and harsh financial sanctions associated with welfare-to-work policies for those on income support encourage a greater reliance on the fringe economy. This consequence reinforces the accuracy of the metaphor of a ‘shadow welfare state’ to describe these institutional changes – a shadow that grows longer in the face of inadequate public welfare. What to do about these issues raises questions about the extent to which the state is willing to regulate market behaviour and establish and support public and community alternatives to for-profit payday lenders.

Lenders construct the policy problem as a minor matter of having the industry ‘cleaned up’. Light market regulation, they argue, will best bring the sector into the mainstream of Australian finance capitalism. In contrast, welfare and consumer activists consider the existence of the payday industry as opportunistic problem that needs to be curtailed or abolished. Consumer advocates and financial counsellors have some clear views on other measures they wanted to see implemented. The difficulty investigating, researching and responding in policy terms to the fringe credit industry, or what Rivlin (2011) simply calls the ‘poverty industry’, is that it is broad, multi-faceted and forever changing its products in response to new regulations. Nonetheless, it is worth canvassing some of the broad policy

options and more specific practical measures that are likely to make an immediate and positive difference to low-income citizens in both Australia and other countries facing similar challenges.

Evaluating policy options

Similar to other countries, Australian policy and law makers, consumer advocates and industry lobbyists are all immersed in an intense political debate about how best to regulate access to credit whilst protecting 'vulnerable consumers' from exploitation. One obvious policy response to the borrowing patterns identified above is a complete ban upon payday lending, which has been tried in other jurisdictions. Two states in the USA provide a case study of this option. In May 2004 the state of Georgia in the USA banned payday loans, with North Carolina following suit in December the following year. In examining the effects of the bans, researchers concluded that the absence of storefront payday lending has not had significant impact upon the availability of credit for households in North Carolina (University of North Carolina Center for Community Capital, 2007). Further they argue it has had a positive rather than negative effect on households, with nine out of ten households surveyed claiming 'payday lending is a bad thing' (University of North Carolina Center for Community Capital, 2007: 1).

Participants reported using several credit alternatives to payday loans including pawn shops, overdrafts and internet providers. Others developed lower cost strategies, took on additional jobs, changed their spending habits and chose to simply do without. While this would seem to lend support to a banning strategy it is worth noting that of the 400 people surveyed, only twenty-three were former payday lending clients. Some in the study feared that unless a large-scale viable alternative was put in place to offer fair credit then people would be left with little option than to turn to illegal means of accessing credit.

Polici's consumer research in France, Germany and the UK all show that use of illegal lenders is concentrated among those who have experienced credit refusals from legitimate lenders (Ellison and Forster, 2008b). However, Ashton (2008) argues that the substitution hypothesis is not an accurate reflection of the reality, suggesting that the reduction of one form of credit will not result in a substantially identical increase in another form of credit. Lott and Grant (2002) suggest that people are unlikely to turn to loan sharks, and usually are unacquainted with them. Rather they would be more likely to turn to family and friends for help if this is an option. Ellison and Forster (2008a) show that informal borrowing is an inadequate substitution for commercial credit. 'If payday lending is welfare improving for at least some portion of the population, a move to ban payday lending is ill advised' (Morse, 2007: 35). Karian and Zinman (2009) observe that restricting supply does not restrict demand. Instead they argue for the asking of more nuanced questions, such as how do we

make markets work better and how can we create an environment that allows those who would benefit to borrow, and leads those who would be harmed to avoid expensive traps?

In contrast, law reformers and antipoverty activists in Australia, such as The Consumer Action Law Centre, argue that product demand in the marketplace does not necessarily legitimate product supply (Ashton, 2008: 30). Robert Shiller (2004) suggests the need to provide the financial sector with incentives for undertaking investments with high social benefit and punish those if its investments cause social loss, as a means to managing risk and developing appropriate price management. Recent policy developments in Australia are focused on developing a national and uniform code for regulating the maximum amount that lenders can charge for loans, in terms of interests and fees. Consumer advocates have been arguing for a comprehensive 48% cap on what consumers can be charged for payday loans (including loan interest and fees). The payday lending industry has resisted, arguing that this would no longer make them viable. At the time of writing it appears likely that in proposed laws the Australian Government will adopt a compromise position of allowing higher percentages to be charged for small amounts and less for larger amounts.

In addition to the legal and regulatory policy responses there are other anti-poverty measures that aim to increase capacity among borrowers so that they are in a better position to avoid relying on payday lenders in the first place. Clearly, some of these measures require considerable investment and long-term change at the individual, economic and social level. In this overall approach, education and financial literacy clearly has a role to play. Research shows that credit counselling has a positive effect on personal debt levels, provides a buffer against financial hardship and facilitates long-term change (ANZ Bank, 2005; Courchane and Zorn, 2005). If coupled with structured opportunities to save, financial education, can increase participation in savings plans and increase the level of savings for people (Barr, 2004). Financial counselling serves a developmental function, assisting borrowers to develop the skills and knowledge they need. However, in the Australian context most people access counsellors for more corrective measures when debt spirals out of control, to negotiate directly with lenders and banks and to assist people to re-establish financial control (author and author, 2011). There are also limits to how much budgeting can change people's circumstances when the issues are structural not merely personal: the payment rates for social security in Australia are falling behind increases in wages and are well below standard poverty measures.

There are other measures that would help reduce the costs of being poor and accessing credit. Some mainstream banks in Australia (e.g. National Australia Bank, Commonwealth Bank) are now providing accounts that do not charge dishonour fees when direct debits are unable to be processed due to insufficient accounts. These dishonour fees can range from A\$25 to A\$50 for each failed transaction. One option to reduce these costs would be for the

national government to mandate that mainstream financial institutions and banks proactively offer dishonour-fee-free accounts to all their clients who receive a social security and income support payment or pension. Alternative financial products and services that target low-income clients have also increased in recent years, as mentioned in the first part of the paper.

A recent Australian Treasury discussion paper *Strategies for reducing reliance on high-cost, short-term, small amount lending* proposes ‘one-stop shop financial services hubs’ be created to:

Address financial exclusion by providing a retail service delivery model which could compete with the service offered by high-cost small amount lenders...through offering financial counselling, access to microfinance products, Emergency Relief, money management education and referrals to the Home Energy Saver Scheme...Additional products could also be developed to directly compete with small amount loans currently provided by payday and fringe lenders. (Treasury, 2012: 27)

However, the claim by the Australian Government that the hubs would ‘directly compete...with payday and fringe lenders’ remains untested. The timeframes and purpose of the product may not meet the needs of many payday lending customers. NLS and other micro-finance schemes offer products for one-off purposes and usually take days to process a claim. Borrowers want cash quickly and are twice as likely to take out a loan to help meet their day-to-day, rather than irregular, expenses (Banks et al, 2012). Micro-financing schemes therefore operate in a complementary market space in the mixed economy of credit, compared with the payday lending industry.

In the mixed economy of credit the state itself could be doing more in terms of reforming the way it offers credit through its income support agency Centrelink. Currently the minimum Centrelink advance payment a single person can request is:

- a A\$361.55 (Age Pension, DSP, Carer Payment, Widow B Pension and Wife Pension); or
- b A\$250 (ABSTUDY, Austudy, Newstart Allowance, Parenting Payment Partnered and Single, Widow Allowance and Youth Allowance); plus
- c A\$188.20 (FTB)

Access to advance payments is restricted to Centrelink customers who have been in receipt of a pension or payment for at least three months. An advance payment can only be taken once in six months (group a and c) or 12 months (group b). Group a clients can ‘draw down’

their advance payment in three tranches. The default repayment schedule set by Centrelink is 13 fortnights. There are only two ways a person can repay an advance payment more promptly. The first is to know about the poorly explained provision that they can negotiate a faster repayment schedule with a Customer Service Adviser at the time of claim. The second is to go into a Centrelink office with cash. Nearly all the complex restrictions currently applying to Advance Payment eligibility, amounts and repayment schedules need to be removed for transfers of less than A\$500. For example, a real alternative would enable a person to go online or ring to take out a A\$50 advance, receive it in their bank account by the next day, repay that amount in two weeks and immediately be able to take out another payment. This kind of reform would potentially reduce the attractiveness of the commercial payday loan.

Clearly there is no single solution to the problems identified in this paper. What is clear from this discussion is that poverty researchers and policymakers need to take fuller account of the complexity of the causes and consequences of increasing demand for payday lending and other fringe lending products. While simple solutions, such as banning payday lending may be enticing, they beg the larger question of what would be done to reduce demand and address the underlying economic insecurity, which from a political economy perspective is linked to increasing inequality and unequal opportunities in relation to the Australian economy and a contracting social state. Precarious work and precarious welfare associated with welfare-to-work programs are making people's economic situation insecure.

Along these lines one way forward is to reframe the policy debate away from a simplistic regulation versus non-regulation debate and understand the rise in demand for these services as principally a social issue, which makes sense if one accepts the proposition put forward in this paper that the explosive growth in the fringe economy is linked to an inadequate and patchy welfare state, which is being further weakened by the growth in precarious work in countries such as Australia, the UK and the USA. The argument here is that structural changes to the labour and housing markets combined with coercive workfare policies are creating growing social and economic insecurity among a large and growing proportion of the citizenry (Standing, 2011), which in turn creates demand for additional money in the form of credit to meet everyday expenses.

The arguments made in this paper also point to the limitation of strategies aimed at improving financial literacy among the poor. The main problem is not lack of knowledge among low-income citizens about the high costs of the loan (author and author, 2011). The decision to borrow is often a pragmatic choice that is made on the basis of economic and social constraints; in a context where there are few alternatives in the form of borrowing money from informal sources or mainstream credit providers such as banks (Banks et al, 2012). In other words, consumers are likely to borrow from fringe lenders

anyway. As such many borrowers tend to resist the proposition that fringe lenders be put out of business by tough government regulations. Moreover, it is too easy to simply blame consumer culture and an instant-gratification society for the popularity of the payday lending industry. As argued throughout this paper, there are deeper, structural reasons for the rise in payday lending in countries such as Australia, the UK, Canada and the US, not least of which is a pressure for a smaller social state (Rivlin, 2011). However, even if structural social inequality is addressed to a satisfactory level and cash transfers are substantially increased for social security recipients a discussion is still required about the appropriate supply of fair credit, given the institutionalised nature of this form of financial exchange in contemporary western societies.

In the context of discussing access to credit we need to get past the conventional logic put forward by the fringe lending industry that the only way to serve lower-income households is to charge them more for credit, given their perceived ‘riskiness’. Such practices only serve to entrench the truism that ‘the poorer you are, the more things cost’ (Brown, 2009). This ‘poverty premium’ has been identified in various studies of access to finance and the impacts of regressive taxes, such as consumption taxes. A recent UK study has attempted to aggregate this poverty premium:

It is a shocking injustice that the poorest families in the UK pay higher prices than better-off families for basic necessities like gas, electricity and banking. The costs that poor families bear in acquiring cash and credit, and in purchasing goods and services can amount to a ‘poverty premium’ of around £1,000; 9% of the disposable income of an average-size family. (Family Action, 2007: 1)

Academic and policy interest in addressing this differential has tended to focus on the effectiveness of formal strategies, such as the adequacy of state funded cash assistance, tax credits and ‘making work pay’. As discussed, these measures are important and necessary as they can provide buffers against financial shocks and irregular expenses and reduce demand, but they are only part of the picture when it comes to proposing effective solutions and assessing the merits of existing formal and informal survival strategies being used by people living in poverty.

Conclusion

Accessing credit through payday lenders is clearly a costly option but it has quickly become institutionalised in urban areas where low income households are struggling to manage the cost of everyday living expenses. Finding less costly alternatives to address this predicament will need to acknowledge the embedded role of the payday lender in urban governance and poverty survival. As has been discussed in this paper, there are

multiple drivers behind this growth, both cultural and material, that need to be addressed in reducing the reliance on high cost credit. We need to more fully appreciate the consequences of the changes in institutional welfare arrangements and housing and labour markets that, from a political economy perspective, are driving a growing demand for high cost credit in these urban localities. We also need to appreciate the emotional and moral dimensions that shape household decisions in the mixed economy of credit in everyday interactions in the urban periphery. In research terms, this means that the disciplines of social policy and sociology need to take a more active interest in these social problems, as the field is presently dominant by socio-legal scholarship. While government regulation and the consumer legal dimensions about access to fair credit are clearly important, the underlying drivers behind this growth and implications for welfare governance are missed in these accounts.

Examining the increasing demand for pay-day lenders, among citizens on a low income, acts as a pivot point into more traditional social policy concerns, such as unaffordable housing, exploitation and discrimination, reduced labour market opportunities for low-skilled workers and inadequate income support payments. Until these structural inequalities are more adequately addressed and the cost of accessing credit is reduced, the effectiveness of anti-poverty mechanisms, such as tax credits and compulsory savings schemes, is likely to be muted. Available finances within low-income households will continue to be diverted from meeting the costs of living to servicing spiralling debt levels. In addressing these issues national governments have a direct role to play, beyond regulating the behaviour of financial lenders through legal remedies. Australia, like other countries with relatively low rates of payments for pension and unemployment benefits, could increase base income support rates and the coverage of social services and it could also expand its role in offering fair and accessible no interest loans for recurrent expenses, either directly or in partnership with non-government agencies. In other words, the national government could become a more dominant player in the mixed economy of credit, which may drive more responsible lending practices in the fringe lending sector and reduce the length of the shadow that is cast by patchy institutional arrangements for the provision of welfare.

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