



a MATTER of SPIRIT

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Economic Inequality

In this issue of *A Matter of Spirit*, we look at economic inequality in the United States. Decades of stagnant wages, a shrinking middle class, and further concentration of economic power in the hands of a privileged few are challenging the belief that hard work and perseverance will result in a more prosperous life for our children. The widening gap between the haves and the have-nots calls us to question the moral implications of an economic system in which so many live on the edge of precarity.

Chuck Collins outlines the economic reality of living on the margins. He examines how the gains in productivity over the past 40 years have not improved the lives of those who are most desperate for a leg up, and then suggests several large-scale remedies for a brighter future. Dr. Aida Ramos examines the shrinking middle class. Grounding her argument in Catholic Social Teaching, she writes that in order to ensure good social relations, we must work for business practices that share growth equitably.

We also examine the lasting impact that borrowing has on our communities. Christian Cousins analyzes the growing student debt crisis in the United States, in light of how it is reshaping community and family relationships. Stephen Reeves examines the pay-day lending economy, describing the spiral of debt that this kind of loan can produce, and identifying organizations and movements that are fighting for just lending practices.

As beacons of hope, we highlight the personal stories of two individuals for whom life on the economic edge is a lived experience. After years of being food-insecure, Tammy Nguyen now organizes for food justice and accessibility in southeast Seattle. Dennis Bateman has transformed his experience of life on the streets into a powerful advocacy for the homeless.

Finally, Dan Rhodes challenges us to examine closely our society's drive for perpetual growth in light of God's call to embody love and friendship. His call to question our fealty to accumulation and reacquaint ourselves with the Spirit gives hope for a future of moral economic security.



Loiset Lyédet, in Jean Froissart's *Chroniques*, Richard II meets the rebels calling for economic and political reform during the Peasants Revolt of 1381.

INEQUALITY *on the Margins*

By Chuck Collins

For over four decades, we have lived through a period of extreme inequality of income, wealth and opportunity. But for those who are marginalized in our society and economy, the overarching inequality trends have supercharged existing inequalities along the lines of gender, race and immigration status.

Between 1947 and 1977, the U.S. experienced relative shared prosperity, as real wages increased for most workers, including women and people of color. But since the late 1970s, the U.S. has experienced four decades of flat or falling paychecks for a majority of wage earners.

WAGE INCREASE GAP

AVERAGE WAGE OF

BOTTOM 1/2 OF EARNERS

1980 → \$16,000

2014 → \$16,200

PERCENT INCREASE **1.25%**

AVERAGE WAGE OF **TOP 1%**

1980 → \$400,000

2014 → \$1,300,000

PERCENT INCREASE **225%**

* All amounts in 2014 dollars.

sources: Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, *Distributional national accounts: methods and estimates for the United States*, National Bureau of Economic Research, Working Paper 22945, December 2016. <http://www.nber.org/papers/w22945>.

Since 1975, there have been extraordinary gains in productivity. But over half of U.S. wage earners have not shared in the fruits of their labors. In 1980, the bottom half of wage earners, roughly 117 million adults, earned an average of \$16,000 a year in current dollars. In 2014, earnings for the bottom half of households had remained virtually unchanged, bumping up slightly to \$16,200. Over the same period, the incomes of the top 1 percent tripled from average annual wages of \$400,000 to \$1.3 million.

The result is persistent poverty at the bottom, a work treadmill for low-wage workers, and a squeeze on middle class workers. For over four decades, poverty rates have remained unchanged. Over 13.5 percent of the population, an estimated 43 million people, live below the poverty line. A growing number

of low-wage workers are toiling longer hours and taking on debt to survive economically.

Most workers struggle with poverty wages. Half of U.S. jobs pay less than \$15 an hour and 41 million workers earn under \$12 an hour, or less than \$25,000 per year. These workers are disproportionately Black and Latino and female –and many of them may be undocumented. Most of these low wage jobs have few or no benefits, including no sick leave, vacation days, child-care, or retirement plans.

These are the workers who clean hotel rooms, take care of children and the elderly, serve food, work at retail counters, and as janitors and security guards. Stagnant and low wages fuel a difficult work-life balancing act for many individuals and working families attempting to survive.

Underwater Nation

These overarching inequality trends undermine a sense of economic security and well-being for a majority of the society. The U.S. government shutdown that began at the end of 2018 dramatized just how many workers live financially close to the edge. By one estimate, almost 80 percent of U.S. workers live paycheck to paycheck.

Stable middle-class workers, including small town federal prison guards and airline safety inspectors in major cities, had to survive without paychecks. But the vulnerability they experienced wasn't unusual. A majority of the U.S. population lives with very little by way of a savings cushion, with greater levels of vulnerability for women, people of color, new immigrants, and undocumented workers.

One troubling indicator is the rising ranks of the “underwater nation,” households with zero or negative wealth. These families have no savings reserves—they owe more than they own.

The percentage of underwater households increased from 15.5 percent in 1983 to 21.2 percent today. The next 20 percent of all U.S. households have positive net worth, but not much. Four in ten families couldn't come up with \$400 cash if they needed it for an emergency, according to the Federal Reserve.

This “underwater wealth” experience is more present for people of color, experienced by 33 percent of Latino families and 37 percent of black families. Data is sparse for First Nation households but we can presume their precariousness is even greater.

Unemployment may be low, but it masks an insecure population. At the root of the problem is growing inequality. Many families still haven't fully recovered from the economic meltdown a decade ago.

The Racial Economic Divide

While focusing on income inequality and the earnings gap is important, wealth is a critical indicator of economic security and well-being. Families that attain a certain level of wealth and stability are able to weather economic adversity and take advantage of opportunities that are hard to pursue when they are in economic survival mode. Unequal wealth is where cen-

turies of racial discrimination show up in the present in the form of unequal savings, homeownership rates, and financial stability. These racial wealth disparities have grown more divergent during a time of overall inequality. Today, the median White family has 41 times the wealth as the median Black family and 22 that of the median Latino family.

Concentration of Wealth and Power

There is a tendency to focus on inequality through the lens of what is happening to low-income and working people. As a result, many solutions focus on “lifting the floor.” But one of the drivers of extreme inequality is the growing concentration of wealth and power at the top, and the ability of this segment of society to tilt the rules of the economy to capture more wealth and income. To reverse these inequalities, we have to understand the connection between concentrated wealth and the rise of economic insecurity for the majority.

For example, as wages have stagnated, the gap between the compensation of CEOs and average or lowest paid workers in firms has grown. In the mid-1960s, the ratio between average worker pay and CEO pay was about 20 to one. In recent years, the ratio has swollen to over 300 to one.

The wealthiest 1 percent of households now hold roughly 42 percent of all private wealth, up from 33 percent in 1983. At the very pinnacle of U.S. wealth is the Forbes 400, all billionaires with a combined net worth of \$2.9 trillion. Together, this group has more wealth than the bottom 64 percent of the U.S. population combined. The wealthiest 3 billionaires—Bezos, Buffett and Gates—have more wealth than the bottom half of the U.S. population combined.

We will not succeed in reducing inequality without breaking up the concentration of wealth and power at the top. Significantly raising taxes on the ultra-wealthy serves both to reduce the corrupting influence of plutocratic power, as well as producing significant public revenue that can be invested in creating wealth-building opportunities.

Solutions

One promising development is there is a society-wide conversation as to how to reverse these inequalities and reduce the racial economic divide. If we can implement some of these meaningful policies, we could begin to reverse these inequalities over the next generation.

Raising the minimum wage and expanding health insurance coverage are two well-known proposals that would reverse inequality and reduce the racial and gender gap. Creating a stable immigration status while clamping down on employer wage theft would help the most vulnerable workers in our society.

Another interesting solution is to establish baby bonds as a counterweight to wealth divisions that are perpetuated by unequal inheritances and family help, what sociologists call the “intergenerational transmission of advantage.”

“Unequal wealth is where centuries of racial discrimination show up in the present in the form of unequal savings, homeownership rates, and financial stability.”

Baby bonds are accounts set up at birth for children and endowed by the federal government with assets that will grow over time. These funds could be tapped when a child reaches adulthood for education, starting a business, and purchasing a home. One recent study found that had we implemented a baby bond program 40 years ago, the Latino-White wealth divide would be closed by now and the Black-White wealth divide would have shrunk by 82 percent.

Another fix is to reorient our upside down tax system and target wealth-building subsidies to no- and low-wealth families and individuals. In 2016, the U.S. government spent \$677 billion through incentives in the tax code to assist families to pur-

HOUSEHOLDS WITH ZERO OR NEGATIVE WEALTH

1983 ➔ 15% of U.S.
2017 ➔ 21.2% of U.S.

AVERAGE PAY OF CEO VS. TYPICAL WORKER

1960s ➔ 20 : 1
2014 ➔ 300 : 1

sources: <https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf>. Kelley Phillips Erb, “Portland Plans to Tax Companies Who Pay CEOs 100 times More Than Workers,” *Forbes*, December 19, 2016.

chase homes, attend college, and save and invest for the future. These benefits, however, flow almost exclusively to the already wealthy. The top 1 percent of all U.S. households received more in these forms of federal spending than the bottom 80 percent combined. Very little or no support goes to low- and moderate-income families, particularly those of color. Redirecting over \$600 billion a year to low-interest loan programs for first-time homebuyers and the baby bonds described could significantly chip away at the wealth divide within a generation.

One way to boost wealth-building and savings is to create a “postal banking” alternative to the predatory lending institutions that prey on low-income families in rural areas and inner cities by charging excessive fees and interest rates for basic financial services. The U.S. Postal Service is uniquely positioned to provide financial services, such as check-cashing and depository accounts, for the estimated 10 million low-income households that are “unbanked.”

Another solution that would have multiple benefits would be

to establish a guaranteed employment program that pays a decent living wage. Black and Latino workers are twice as likely to be among the working poor or underemployed. Like the 1930s Depression-era Civilian Conservation Corps or Works Project Administration, these jobs would provide dignified income and improve our nation’s physical and human infrastructure.

Many proposals to reduce inequality—such as raising the minimum wage, expanding health care coverage, and taxing the wealthy—are broadly popular among the electorate. Now we need to organize our communities to retake our captured political system.

▲ *Chuck Collins is the Director of the Program on Inequality and the Common Good at the Institute for Policy Studies where he co-edits Inequality.org. He is author of Born on Third Base: A One Percenter Makes the Case for Tackling Inequality, Bringing Wealth Home, and Committing to the Common Good (Chelsea Green). His most recent book, Is Inequality in America Irreversible?, is published by the Oxford, UK-based Polity Press.*

Inequality THE MIDDLE CLASS & THE COMMON GOOD *Reflections from Economics and Catholic Social Thought*

By Aida Ramos

In 2015 the US experienced a new phenomenon. For the first time the middle class no longer made up the majority of US households. 51% of households were reported to be in either the upper class or the lower class, defined as households earning over \$135,000 and those earning below \$45,000, respectively. While the positive side of this story was that more households had moved into the upper class, the negative side of the story was that so too had more middle income earners fallen into the lower class. The data for 2018 show that the middle class is again a slight majority, but the number of households moving into the lower class is increasing and the share of national income to the middle class is stagnant.



Income inequality is technically a normal characteristic of free market economies. It demonstrates that people are free to exercise their talents and skills in jobs that compensate one for different skill levels and for the difficulty of work. Workers are free to move from one job to another and consumers are free to change their demand for certain goods, just as producers are free to change how they produce goods. All of these factors affect employment and thus income levels. However, there is a stage where increasing inequality becomes problematic. Extreme inequality, where there are large gaps between the upper income earners and the majority of the population, are a characteristic of less developed economies, and something that economists warn against. Why are large income gaps an issue? We can examine the effects and causes of inequality and the situation of the middle class from both an economic and Catholic social teaching perspective.

The economy is growing and unemployment is low into the first quarter of 2019. However, lost in much of the national political conversation is the fact that average household wages have stagnated for the middle class. This is unfortunately not a new phenomenon. Workers' productivity has continued to increase in both hours and the value of workers' output, but wages have not risen in the same proportion. From 1973-2017, worker productivity increased by 77% but hourly pay increased by only 12.4%. With rising costs of living, American workers are making less income in terms of real purchasing power than their parents, and this trend is most pronounced for the middle class. 95% of those born in 1940 could expect that their earnings would be better than their parents', but by 1984 only 41% of those born in that year could expect the same. By 2014 less than half of 30 year olds were earning more than their parents had at the same age.

Many middle- and lower-income Americans are finding it more difficult to pay for the basic needs of their



household. While this is of course an issue of economic justice, it is also one that affects economic stability. Adam Smith, considered by most to be the father of economics, explained why in the *Wealth of Nations* in 1776. He makes the first strong argument that the prosperity of nations did not depend on the monopolies that merchant companies had lobbied governments for in order to protect their interests, as the dominant economic theory of the time was that having a perpetual positive trade balance was a means of showing one's

amongst the different sectors of the economy. With a higher concentration of income in fewer households, there is less income amongst those who not only produce most of the goods in our domestic economy but also purchase them. All of the washers and dryers, food, video games, clothes, and cars need domestic buyers in order for producers to continue to employ people. If the share of middle class income continues to erode, the share of total income going to buy consumer goods will decline, leading to unemploy-

“95% of those born in 1940 could expect that their earnings would be better than their parents’... By 2014 less than half of 30 year olds were earning more than their parents had at the same age.”

dominance. Rather Smith argued that it was the division of labor and the stock of goods in the country that were the source of the wealth of the country. The people who made this possible, he says, are those such as the shopkeeper, the brewer, the butcher, the baker, the tailor, the cobbler—all those in middle and lower class occupations who produced goods and services and purchased them.

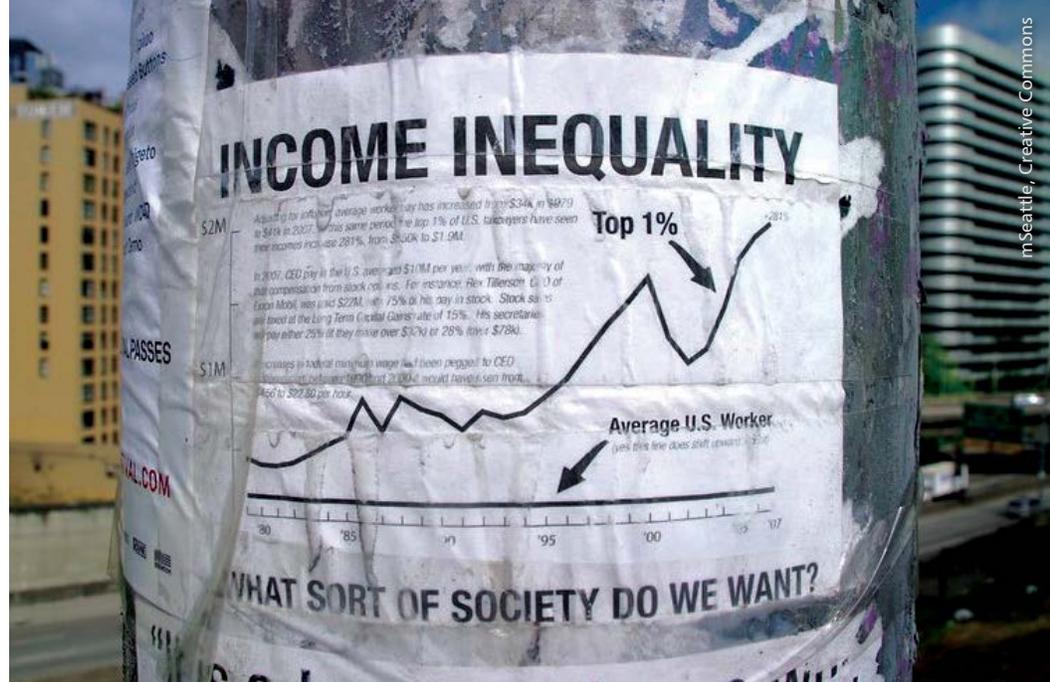
Increasing inequality thus disrupts production and flows of payments

ment, which leads to further declines in income. The stability of the economy requires households who can afford to purchase the products that the economy produces.

Although households classified as middle class have grown back to 51% of the total, a still troubling statistic is that the middle class holds a lessening share of total national income. With each successive increase in national growth, a greater and greater share of the gains

has gone to fewer upper income households rather than spread out more proportionately amongst upper, middle and lower income households. Greater concentration of more income in a few households can bring about undesirable results because higher income households' consumption is not enough to support a healthy market economy. Rather than more basic goods—every household needs only so many washing machines—higher income households tend to buy more luxury goods. Luxury goods are often imported from abroad or produced in such small quantities that they cannot sustain employment for a nation. This is not to say these households are bad, only that they will not buy as many manufactured goods as middle- and lower-income households combined.

Inequality resulting from stagnant compensation is problematic in two senses from a Catholic perspective. First it violates justice, in that a person should be compensated fairly for the work one does. Since Pope Leo XIII's *Rerum Novarum* in 1891, the Church's official economic social doctrine has taught that a just wage must be enough to provide a decent living for a worker to support a small household and have savings. Pope John Paul II taught that a just wage is a way of measuring the justness of a country's economic system (*Laborem Exercens* 19). Second, it hurts the common good. Upper income groups have potentially more influence on policy that can be used in self-serving ways. Households with higher incomes may also be less inclined to support increased funding for public education and other public goods because they have access to quality private education. More inequality also erodes the social safety net that many households rely upon in their retirement. For instance, under the current tax laws, every dollar of income over \$132,900 is not taxed for Social Security. With more national income flowing to fewer households, less funding will be available for Social



Security, which has negative implications for human dignity in old age and places a greater burden on middle class taxpayers to fund the safety net.

Economic instability and social instability often go hand in hand. Pope Benedict XVI warned that there is a way in which richness can be a form of poverty by making one care less about one's fellow man and wearing away at our social bonds. When it is seen that those with higher incomes can manipulate political processes, a lack of trust in the system arises that threatens democracy. Additionally, he warns of "the progressive erosion of 'social capital': the network of relationships of trust, dependability, and respect for rules" necessary to civil society (*Caritas in Veritate* 32). Pope Francis' discussions of an economy of exclusion similarly warn that rising inequalities and consumerism lead us into a situation where we not only abuse resources, which disproportionately affects the poor, but that we also forget how to love one another (*Evangelii Gaudium* 53-54; *Laudato Si'* 48-52).

From both a technical and Catholic perspective, the lack of fair compensation for workers has immediate and long-term effects for individuals, households, and society. Lowered real purchasing power means a greater share of household income is used for basic necessities and less for savings,

which leads to an inability to purchase a home or build household wealth. Households in such a situation then lack wealth to pass on to their children. Stagnant incomes in the face of rising costs also means households have less income to allot to education and healthcare, making it more difficult for the next generation to attain a better standard of living. Those in the lower end of the income scale are in an even worse situation where their human dignity suffers as they struggle to meet basic needs.

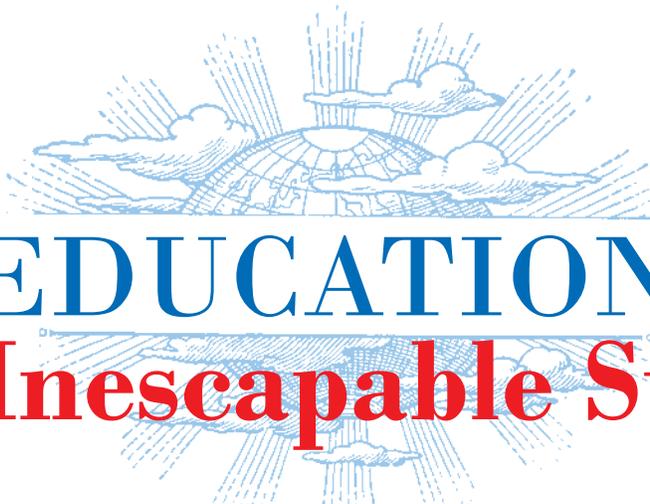
What can be done to improve this situation? The United States Conference of Catholic Bishops provided actionable guidance in its 1986 pastoral letter *Economic Justice for All*, wherein it emphasized the ability of all to participate in society and for people's basic needs to be met as the goals of any just economy. Therefore we ought to support initiatives that further economic inclusion and help people to increase their incomes, such as increased funding for public education at all levels, access to Catholic school, healthcare, improved infrastructure, and social safety programs such as welfare, Social Security and Medicare that have prevented many from living in extreme poverty. As employers and workers, we must remember our duties to each other, outlined in *Rerum Novarum* and its successors. Employers ought

to pay fair wages and engage in fair competition, not seeking to cheat their employees, undermine their rivals and drive firms out of business. An obvious change to make is to track wages at a minimum to the cost of living, so that wages will grow with inflation. Workers have a duty to provide honest efforts for their employers and not expect higher pay if they are working for a firm that has fallen on difficult times. Investors have a duty to divest from those who engage in unethical practices and particularly those that harm the most vulnerable. The state ought to implement policies that respect subsidiarity and support the common good, such

as improved education and health initiatives, fair wage legislation, adjusting the minimum wage for inflation, protection of workers' rights, protection of employers' rights, and the pursuit of tax policies that place burdens proportionately according to income. As citizens we have a responsibility to remain informed, to vote, and to urge our representatives to enact policies that uphold human dignity, regardless of which party proposes them. Pope Benedict cautions, "The dignity of the individual and the demands of justice require...that economic choices do not cause disparities in wealth to increase in an excessive and morally unacceptable manner..." (32).

Economic outcomes are the result of human choices, and thus it is up to us to decide what kind of economy we want and let that inform the economic choices that we make.

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EDUCATION *in the Era of* Inescapable Student Loans

By Christian Cousins

On January 29, 1987, The New York Times ran a story on page A23 that was certain to give parents and students across the country chills. The headline portended a grim and uncertain future: "Heavy Burden of College Debt Raises Anxiety for Young Families' Future." This was followed by section titles deeper in the piece that only piled on the unease: "Parents are Wondering," and "Few Plans for Paying Debts." The amount of student loans taken out over the previous 12 months that so rattled the Gray Lady: \$10 billion.

Adjusted for inflation, that \$10B would be \$22.1B in 2018. So how much money did American families and students actually take out in student loans, both federal and non-federal, during 2018? \$105.5B, almost five times the adjusted amount as in 1986. And that's coming down from a peak of \$127.7B in 2010 (perhaps understandable at the height of the Great Recession). But the year-by-year numbers are peanuts compared to America's accumulated student debt. As of 2019, it now stands at \$1.56 trillion.





Our little human brains are quite bad at understanding what numbers this large actually represent, so let's put it in perspective—that \$10B taken out in 1986 (adjusted to today's dollars), represents only 1.42% of our nation's current student debt burden.

The problem of exorbitant student debt in the United States is one that does not have simply one cause, but rather is the product of a number of synchronous scenarios. It is frequently framed as one of finances run amok, the encroachment of extractive business practices on a financially vulnerable population. Rapacious lending companies or for-profit institutions that churn out worthless degrees are seen as taking advantage of students just trying to improve their lot in life. Further blame for the current crisis is frequently laid at the feet of state legislatures that cut funding for public universities year after year knowing that the institutions can charge any amount for tuition and the student loan economy will pick up the slack. Or at the feet of institutional bureaucracy like deans' and provosts' offices that produce ever more stratospheric administrative costs, or non-academic student amenities like pools and high-end dining facilities; in these scenarios, student loans are seen as a necessary evil that enable students to still attend school despite rising costs that are out of their control. At the end of the day, all of these play a part in the country's ballooning student debt.

Often lost amid the dizzyingly large numbers, and the very real concern for the decades that it will take many students to pay back their loans, is the effect this debt burden

can have on our social ties, on opportunities for community growth and wellbeing, and our sense of a just society. A lifetime of student loan debt has repercussions not just for a particular student's economic security, but for the spiritual and ethical health of our country.

To tell the story of student loans in the U.S., at least as we understand them today, it's useful to begin with the widespread use and popularity of the GI Bill after World War II. During the postwar years, thousands of veterans were able to attend college or professional schools with the assistance of federal funds, which along with housing loans made available through the same legislation helped kickstart the rise of the mid-century American middle class. Moreover, the GI Bill fundamentally changed the structural and logistical nature of higher education in the U.S. As Michael Gambone observes in *The Greatest Generation Comes Home: The Veteran in American Society*, due to the availability of federal student loans for vets, the student bodies of many universities doubled in size in the decade following the war, necessitating not only rapid construction of new facilities but often a serious rethinking of pedagogy, staffing, and curriculum. College was becoming democratized. No longer just a training ground or finishing school for the country's governing and professional classes, a university education became a ladder to the middle class.

Over the next few decades, the widespread use of student loans became normalized as part of the wider landscape of higher education. The earliest loan programs were developed and financed by the federal government, like the Perkins Loan Program in 1958, while later ones were public-private ventures like Sallie Mae, an organization created in 1972 to service federal loans that became fully privatized in 1997. As frequently occurs when social reorganization engenders new opportunities for investment, a private student loan market quickly grew in parallel to the federally managed programs. As a result, many students today have multiple loans, one federal and one (or more) private. The most impactful difference between guaranteed federal loans and those made by federally backed private lenders is a matter of interest rates. The rate for federal fixed-rate loans (there are no federal variable rates) peaked in 1997 at 7.46% for undergraduate education (the current rates in 2019 are between 4.45% and 7%, depending on the type of loan); private student loan interest rates, largely—if not solely—dependent upon a borrower's credit history, can be either fixed or variable, and can easily rise into the teens and even above 20%.

The student loan industry, birthed from the good intentions of helping Americans attain a college education and consequently the middle class (an aspiration that it certainly helps many people realize, it must be noted), has evolved into a byzantine system in which students and graduates frequently are saddled with seemingly inescapable levels of debt. As a result, borrowers are adjusting, putting off,

or even canceling many of their personal and professional dreams. The non-profit organization Student Debt Crisis conducted a survey of 7,095 borrowers from all fifty states in 2018, and again and again found reports of how many aspects of people's lives are shackled to student debt obligations, preventing them from participating in other areas of society. Of all respondents, 20% reported delaying getting married, 26% reported delaying having children, and 86% reported student debt as a major source of stress. Additionally, 30% reported having a monthly student loan bill higher than their rent or mortgage, 65% reported having

“A lifetime of student loan debt has repercussions not just for a particular student’s economic security, but for the spiritual and ethical health of our country.”

less than \$1000 in the bank, and 56% reported student debt as the principal factor in preventing them from purchasing a home. Perhaps most troubling was that 58% reported a decline in their credit score due to their student debt, something that could further compound and prolong their misery especially if they have an adjustable rate loan through a private lender. This crisis plays out against the backdrop of the fact that student loans are one of the few kinds of debt in the U.S. that typically isn't eligible for bankruptcy filing.

As this survey demonstrates, the student debt crisis is not merely a matter of finances; it is profoundly influencing how borrowers are approaching their roles with regard to family, community, and society at large. When loan payments are more than housing costs, one is reluctant to take the risk of leaving a job for a potentially better one or to start a business. When young people feel so burdened by paying off their loans that they forgo having children or can't buy a home, community growth and ties suffer. And it's not just those markers of young adulthood that are impacted; Forbes magazine has found that the group with the largest percentage increase in student loan debt, 71.5%, are 60-69 year olds. From the inability to start a family to the inability to retire, student loan debt is rewiring the circuitry of our social relations, and not always for the better.

What was supposed to be the ticket to a prosperous life frequently has turned out to be the very thing that makes that life impossible. And when paying for the college education that had been promised to open doors of economic or social opportunity becomes little more than peonage, the democ-

ratizing power of higher education is gone and its liberatory promise is reserved for those didn't need the GI Bill or the Perkins Loan Program or Sally Mae in the first place: the wealthy. A problem this large, with this many stakeholders, and with this much money involved does not lend itself to quickly-implemented and soundbite-ready remedies. But it is impossible to solve a problem until it is identified, and it is plain to see that this \$1.5T decades-in-the-making problem has negatively changed not only how we think about financing education but our relationships with our workplaces, our communities, even our own families. A path needs to be cut out of this bureaucratic and financialized jungle where the only beneficiaries are institutions that, due to a captive market and the inability of borrowers to file for bankruptcy, hold all the leverage and a not-insignificant share of the culpability for the problem in which we find ourselves.

After several decades worth of borrowing, total student debt in the United States didn't hit \$1 trillion until the spring of 2012. In the seven years since then, it has grown by another 50%. Which means this is a problem that shows no sign of abating, and will continue to affect students, families, and communities for years to come.

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Day-to-Day *AND ON A LOAN*

By Stephen K. Reeves

A young father had trouble paying his bills and turned to his Baptist congregation for help. They gave freely from their benevolence fund, no questions asked. When he returned a few months later, a deacon was assigned to provide assistance with budgeting. It quickly became clear that there was no way for the family to make ends meet. The deacon learned that when the father's monthly income had first fallen short of expenses, he had turned to a payday loan for help. After securing a loan of \$700, every two weeks \$200 was being automatically deducted from his checking account making it impossible for him to keep up with his monthly bills and expenses. After several

months, he still owed the original principal and the same amount of fees and interest as the day he walked away with the loan. By the time the church paid the balance, that \$700 had cost over \$3,300 in less than five months.

This story is all-too-common for many financially vulnerable families. An estimated twelve million Americans take out a payday loan every year. In recent years, the small-dollar lending business has ballooned into a multi-billion-dollar industry made possible through a systematic and deliberate dismantling or avoidance of traditional state usury laws. The result is an industry built not on expensive loans given to risky borrowers, but on the creation of previously illegal loan products designed to act as

debt traps for working Americans desperately trying to make ends meet. A loan thought to be an answered prayer, instead becomes a debt trap.

The Old Testament, Hammurabi, Plato, Aristotle, Dante, and Adam Smith all condemn usury. Throughout most of US history, there was a common understanding of usury as immoral and unjust. All original states had strict usury limits of less than 8 percent. In the early 1900s, many states adopted a 36 percent rate cap for small loans. Twenty-five years ago, the storefront payday lender was essentially nonexistent; the current industry began only in the early 1990s. Fifteen states and the District of Columbia still prohibit or tightly restrict the practice. In the thirty-five states that allow some

type of payday lending, the storefronts are ubiquitous. The industry trade association claims over 20,600 are in operation today. The laws and loopholes that allow payday lending vary by state, but the product, practices, and core business model are the same.

Payday loans are high-cost, small-dollar loans offered with no credit check required. The name “payday loan” comes from the term for repayment—typically two weeks or until the individual’s next payday. Borrowers need only have a bank account and show a pay stub or other proof of regular income to qualify. Lenders give no consideration of the ability of an individual to repay the loan within the original term given their other obligations and without the need to reborrow. As a condition of the loan, the lender is given direct access to a bank account via a post-dated check or through electronic ACH authorization.

The typical interest rate and fee charges for a two-week loan range from \$15-\$25 per \$100 borrowed. Those charges represent an annual percentage rate (APR) of 391 percent to 700 percent and can often climb even higher. Some states have no limit to the interest rate or fees that can be charged. At the end of the loan term, the borrower must either pay the entire lump sum, principal plus all interest and fees in one balloon payment, or that amount will be automatically deducted from his/her bank account. As an alternative, the borrower can pay only the fee and interest and “roll over” the loan for another two weeks, like the father above. At this point, despite having paid the hefty interest and fee, the borrower will still owe the entire principal plus another round of fees and interest. Lenders rarely accept partial payment beyond interest and fees, which ensures that the principal owed is never reduced.

While marketed as a short-term solution for emergency expenses, neither is typically the case. According to borrower surveys, 69 percent of loans are used for routine, recurring expenses, and the two-week loans often result in five months of debt or longer. A loan of \$350 will com-

monly cost a borrower \$800 or more to repay—frequently three to four times what was borrowed. When borrowers are able to repay under the initial loan terms, the resulting hole in their budget creates the need for another loan. In fact, according to an analysis of 15 million transactions by the Consumer Financial Protection Bureau, 80 percent of all payday loans are renewed, rolled over, or

“What has been referred to by many as a ‘cycle of debt’ is not an unfortunate accident; it is intentional, and it is the most profitable scenario for the lender.”

are taken out within fourteen days of a previous loan being paid off. That same analysis showed that 75 percent of all fees generated from payday loans come from the 48 percent of borrowers who have taken out eleven or more loans a year. The more the borrower fails, the more money the lender makes. What has been referred to by many as a “cycle of debt” is not an unfortunate accident; it is intentional, and it is the most profitable scenario for the lender.

These lending practices have both personal and systemic consequences. Oftentimes borrowers turn to payday loans feeling it a responsible option to solve their own problem. Lenders are quick and anonymous. In many ways it is easier than turning to family, friends, a charity or a credit union or pawning a possession. However, once trapped in debt, the shame can be consuming. Pastors and others who frequently counsel borrowers testify to the collateral dam-

age these loans cause to relationships and marriages when the emotional impact of never-ending debt hits home. To get out of these loans borrowers often turn for help to those they could have asked in the first place. In addition, payday loans are far more frequent in communities of color. These practices prey upon and exacerbate the persistent racial wealth gap.

Pastors and other faith leaders have not only been counseling individuals trapped in payday loans and helping get them out of debt, they’ve also been actively working for policy reform. Faith-based coalitions have been central to reform efforts in states across the country and recently have organized on the national level. In 2015 a broad coalition of evangelical, Catholic and mainline protestant organizations including the National Association of Evangelicals, The US Conference of Catholic Bishops, the Ethics and Religious Liberty Commission of the Southern Baptist Convention and the Cooperative Baptist Fellowship formed Faith for Just Lending to make the case for reform at the national level.

Established by the Dodd-Frank Financial Reform Act of 2010, Congress gave the Consumer Financial Protection Bureau the authority and mandate to pass regulations on payday lenders across the country. After years of research and a promising proposal in 2017, the bureau under new leadership has recently moved to repeal the proposed rule before it can take effect. The fight for reform will continue at both the state and federal level and the moral call to return to traditional usury standards will remain central. There have always been and always will be people desperate for money. The question for us is what to do about those eager to exploit that desperation for profit?

▲ *Stephen K. Reeves leads the advocacy efforts for the Cooperative Baptist Fellowship, a national Christian network of 1,800 churches. He is an attorney and national leader in the effort to reform predatory payday and auto title lending practices with the Faith for Just Lending coalition which can be found at www.lendjustly.com.*

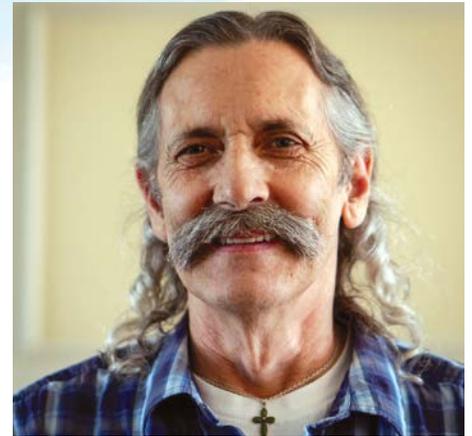
Stories of Hope

Meet two people who found financial stability and have committed themselves to helping others do so as well.

Today, Dennis Bateman's zest for life and unimpeachable optimism can be felt in almost every word that comes out of his mouth. But he wasn't always like this. Orphaned at 5 and abused in the foster care system, he has lost family members to addiction and murder, and he spent decades homeless and in the grip of drugs. And that was when he wasn't serving one of his five stints behind bars. All of that changed about six years ago when, finding himself only hours out of jail and standing alone on a corner in the same town where so much had gone wrong, he had what he calls a "surrendering moment." "OK God, I surrender. Let's try to do this your

way." At the suggestion of a parole officer, he spent that night at Holy Spirit Catholic Church in Kent, WA. Since then Dennis has gotten clean, has gone through mental health counseling, and has secured stable housing through Catholic Housing Services (CHS). But perhaps most importantly, he now works five days per week at The Bridge, a shelter in Seattle funded by CHS that provides a safe place to sleep for people who are homeless and in transition to stable housing. "I work for God, but CHS gives me a paycheck... I realized that I had gifts, that I had something to offer." Dennis has become a vocal advocate for the homeless, equally adept at giving speeches arguing for housing fund-

Dennis Bateman



ing while standing next to mayors and senators as helping broker resolutions between quarreling clients at The Bridge. "If anything, I guess you could call this my calling. That I had been there, that I could help."

Tammy Nguyen



Tammy is a single mom with 3 kids. She has distinct memories of growing up poor, the child of immigrants, and the constant stress of making sure that the family received benefits from Department of Health

and Human Services. By 2008, she was having a hard time holding down a job and making ends meet, but she didn't want to just sit at home. So she started volunteering, and ended up at a district council meeting where she heard a presentation by Michael Woo, founder of GotGreen. Listening to Mr. Woo describe his project of empowering young adults to help their communities in the areas of renewable energy and global warming, Tammy said to herself, "He's talking about me... For the first time, this man was talking about a project that I didn't know anything about and I wanted to learn. I didn't want to be in the game (of waiting on services). I wanted to be in front."

After some persistence, Tammy secured a volunteer position and eventually a paid internship funded by the city of Seattle with GotGreen. In 2010 and by then a full time employee, Tammy helped launch the Women in the Green Economy Project, and since then has been working to help organize South Seattle women to fight for food security. By being a leading force behind the scenes for such successful initiatives like Fresh Bucks, which doubles SNAP benefits when purchasing fresh fruits and vegetables, Tammy is a positive force for change by ensuring that low-income and marginalized communities have access to affordable and healthy food.

The Inequality of **MAMMON** *and the Spirit of the Gospel*

By Dan Rhodes

Nearly two thousand years since Jesus proclaimed that “No one can serve two masters... You cannot serve God and wealth” (Matt. 6:24), we’ve found fit to do him one better by working a detente between God and mammon. Such adages, we assure ourselves, are more appropriate for bucolic cultures and not the complex and advanced forms of society like our own. Or, maybe more so, we take solace in the strangeness of the term “mammon,” convincing ourselves that no such idol could exist in our disenchanting world. Hence, we’ve become quite at ease at integrating our relentless pursuit of wealth with our service to God as the adherents to a more sophisticated gospel, blending economic growth and Christianity. In the new kingdom of capitalism, the prophet of God speaks the same language as the priest of accumulation and efficiency.

With capitalism comes inequality and with aggressive capitalism comes extreme inequality. Income inequality has been rising across the globe since the 1980s with few exceptions. In the US it has taken on a particularly aggressive character where the top 1% have seen their share of income grow to 20% of total from 10% in 1980, while the bottom 50% have seen their share tumble from 20% to 13%. Along with this, private capital ownership has skyrocketed even as public assets have plummeted, loading governments with debt in a transfer of massive wealth to private individuals. Contemporary economic currents will only exacerbate this troubling trend, resulting in what John Ruskin once called a “Common-Ilth” in place of a commonwealth. Not only does the future look to be more unequal, pitting the extreme wealth of the few over and against the deep poverty and insecurity of the masses, but if the standing course continues, then it will likely include an entire surplus and obsolete population left to the annihilation of ecological disaster, impoverishment, dispossession, and despair. Mammon, like many violent and destructive gods, requires its sacrifices.

For persons of faith, there is more to be troubled by when looking at the present situation. It is becoming clearer that even what we have taken to be the acts of mercy have no real purchase on altering the situation and likely even compound it. In this context, Charity—real charity in the sense of the theological virtue—evaporates, wizening our souls. As the Dominican priest Herbert McCabe observed, “What is wrong with capitalism is simply that it is based on human antagonism, and it is



Giotto di Bondone, *Expulsion of the Money Changers*, 1304–1306. Fresco, Scrovegni (Arena) Chapel, Padua, Italy.

precisely here that it comes into conflict with Christianity.” He continues by observing that “as a way of life, as an economy” it is nothing more than “a state of war” constructed on exploitation and exclusion. As a result, mere individual, isolated acts of what we’ve come to know as charity strike far from the call to embody God’s love throughout the whole of our lives, that is, to practice friendship. Without love, faith and hope become impossible, which may explain more of our global reality than we’re inclined to admit. Disparity is simply a mark of a beast whose goals of growth, efficiency, and accumulation contest the way of life proclaimed by the gospel of Jesus Christ.

The spirit of Protestantism and the system of capitalism were linked by the German sociologist Max Weber in what has become a widespread and familiar cultural conception. Whether he was right or wrong may be up for debate. But were we to take a page from his book, we may begin to see that what we need more than ever today is not simply a little tinkering with elements of the system if we are truly to heal the wound of disparity. We need a new acquaintance with the Spirit who will allow us to recover the love and service of God and others to the exclusion of mammon. The very future of our faithfulness depends upon it.

▲ *Dan Rhodes is clinical assistant professor of social justice and faculty coordinator of contextual education at Loyola University Chicago, Institute of Pastoral Studies. He is coeditor of Can I Get a Witness? Thirteen Peacemakers, Community Builders, and Agitators for Faith and Justice (Eerdmans, 2019) and coauthor of Organizing Church: Grassroots Practices for Embodying Change in Your Congregation, Your Community, and Our World (Chalice Press, 2017). He is also Editor-in-Chief of The Other Journal. He lives in Evanston, IL.*



INTERCOMMUNITY

► Spring Benefit

Thank you for supporting our Spring Benefit which celebrated 25 years of IPJC's Northwest Coalition for Responsible Investment!



► Women's Justice Circles

Keep Washington Working Act Becomes Law

Great news! Keep Washington Working (KWW) passed both houses and was signed by the Governor on May 21.

KWW will protect the privacy and civil liberties of Washington residents by prohibiting law enforcement from asking about immigration status, notifying ICE about an undocumented person in custody, or detaining someone simply for being in the country without documentation. Justice Circle members participated in the Immigrant & Refugee Lobby Day and joined statewide organizing efforts to pass KWW.



Family Preparedness & Know Your Rights Training in Belfair, Mason County!

Mason County is a unique community where Indigenous Guatemalan families of Mayan descent have found a place in our forest and shellfish industries.

IPJC is partnering with a local church in Belfair and a community organization in Shelton, as well as with our regular partners, Colectiva Legal del Pueblo and Ureña Law Offices to conduct a Know Your Rights and Family Preparedness Training at the end of June. We will focus on immigrant rights, asylum eligibility, family visas, U visas, T visas and family preparedness plans.

PEACE & JUSTICE CENTER

NEWS • ANNOUNCEMENTS • UPCOMING EVENTS

► Events



- **Pat Howell talk at Assumption Parish**
IPJC sponsored a presentation by Fr. Pat Howell, SJ on *Church Reform: A Historical Perspective*
- **Christian Cousins** participated in Holy Names Academy's Peace and Justice Day, facilitating several discussions about DACA legislation.

► Donations

In memory of: Esther Aherne, OP, James Wilson Clark, Louise DuMont, Anne Heger, Margaret Lichter

In honor of: John Whitney, SJ, Women's Justice Circles

Remembering with Gratitude

James Wilson Clark

Cosmology Enthusiast, Ponderer, Trailblazer, Prophetic Voice

Following a Cosmic Celebration Vigil and Mass of Christian Resurrection, Jim was lovingly laid to rest in Herland Forest in Wahkiacus, WA

► A Matter of Spirit

IPJC often receives requests for extra copies of AMOS. We don't print many extra copies. However, it is posted online and recorded as a podcast. You are free to duplicate the articles for your use.

www.ipjc.org/a-matter-of-spirit

► Immigration



- **Sharing the Journey: Third Annual Catholic Immigration Summit**
Saturday, June 8, 9am-4pm
St. Catherine of Siena Parish
Register by June 1
www.ipjc.org
- **Walking and Witnessing for Immigrant Families**
IPJC joined hundreds of Catholics at Mass with Bishop Elizondo at the Northwest Detention Center in Tacoma.

► Just Video Contest



Congratulations to Raya Tuffaha!

Holy Names Academy, Seattle
Winner of the 2019 Just Video Contest for her entry *Bystander*.
See the winning videos at www.ipjc.org





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Reflection Gather a group to read and reflect on this issue of *A Matter of Spirit*.

Leader: *As we begin our reflection, let us ask God to open our hearts to hear the cry of the poor and commit ourselves to working for economic justice for all.*

☞ This issue contains a lot of data and statistics. What stood out most for you from these statistics? Did any of them surprise or trouble you?

☞ Chuck Collins describes how gains in productivity have not been matched by gains in economic security for the bottom half of wage earners. What do you see as the cause of this inequality? Where do you see examples in your own community?

☞ Higher education has long been held out as a path to financial stability, but Christian Cousins' article on student debt shows how that assumption is no longer necessarily so. Have you, or someone you know, been impacted by exorbitant student debt? How can we make educational opportunity a reality for all?

☞ In her article on the shrinking middle class, Aida Ramos states: "For the first time the middle class no longer made up the majority of US households." How is the common good hurt by a widening gap between rich and poor? What are the ethical and moral implications of such a gap?

☞ The working poor are often described as "living paycheck to paycheck." Steven Reeves' article on payday lending shows how many people cannot make it to the next paycheck, without taking out short-term loans with long-term devastating consequences. How is the call for reform of

payday lending connected to faith-based notions of justice?

☞ Dan Rhodes reminds us of the words of Jesus: "You cannot serve God and wealth." How are we tempted to serve wealth rather than God, individually and as a society? In what ways can we reorient ourselves to "recover the love and service of God and others to the exclusion of mammon?"

☞ Tammy Nguyen and Dennis Bateman are examples of people who have connected with community groups to improve their own lives, and are now working to improve the lives of others. Why is working together in community so important? What are the communities we are part of, and how can they work to create a more equitable society?

Leader: *Let us close our reflection with the following prayer:*

Loving God, You hear the cry of each of your children, and especially those who are poor and suffering. We pray that we too might hear the cries of people in need:

The family crying out for food ...

The migrant child crying out for his mother ...

The youth crying out for education ...

The farmer crying out for rains for his harvest ...

The trafficked and abused, crying out for freedom ...

All who are poor and vulnerable, crying out for help ...

Loving God, open our hearts that we may hear the cries of the poor as you do and respond as your hands and feet on Earth. In your name we pray, Amen

-Prayer adapted from Catholic Relief Services