What debt-jugglers told the sociologists

January 20 2014, by H. Roger Segelken

Memo to bill collectors hoping to squeeze another payment from the working-poor debt-jugglers surveyed by Cornell and Harvard sociologists:

Don't be so threatening. That's a total turnoff for serial debtors. Payments to your usuriously high-interest line-of-credit card will drop to the bottom of their to-do list – as they slam down the phone.

Instead, gentle bill collector, you could say things to nourish their "narrative of socioeconomic mobility" – as they sacrifice to pay off debts, repair credit scores and save down payments for a home of their own.

"Once they start taking steps to achieve a desired goal, debt-juggling families attempt to pay off all kinds of debts," said Laura M. Tach, assistant professor of policy analysis and management in Cornell's College of Human Ecology. "The most common aspiration is home ownership, which motivates people to prioritize their bills and make serious efforts to pay them off, even if it means sacrificing basic needs."

With Sara Sternberg Greene of Harvard University, the Cornell sociologist interviewed 194 lower-income household heads before publishing in the January 2014 issue of the journal Social Problems, "Robbing Peter to Pay Paul: Economic and Cultural Explanations for How Lower-income Families Manage Debt."

As they listened to family heads, Tach and Greene witnessed a marathon of debt juggling, where limited incomes could not possibly cover all the pending bills and families had to decide, month to month, which payments to make and which to defer or ignore. Nearly 27 percent of the interview subjects' debt was managed by tactics that provided short-term relief but ultimately prolonged debt: taking out loans to pay bills, for instance, or paying less than the minimum each month on credit cards.

But there were some surprises: "More than 28 percent were paying off debts with their EITC refunds," Tach said, referring to the federal Earned Income Tax Credit to lower-income workers. "Few were blowing their refunds on splurges like big-screen TVs."

And 21.9 percent of debts were satisfied by timely payment of the amount due. Some 9.5 percent of the working poor paid off bills by laboring through extra shifts or getting a second job. Another 5 percent were taking the "go without" route, holding off on basic necessities or services.

So-called social networks – family or friends – provided assistance in bill-paying in 11.8 percent of the cases. Interviewees expressed reluctance to tap their social networks for anything but the direst of needs, like rent, heating and electricity bills, or auto insurance so they could get to work. Only 4.3 percent of debtors asked help from nonprofits, such as faith-based groups and government assistance.

For many interviewees, asking for "welfare" or other forms of government assistance ran counter to what Tach and Greene called their "narratives of self-sufficiency." Being able to achieve self-sufficiency was a considerable source of pride, the researchers noted. Being forced to turn to networks – and especially to government assistance – was often a matter of shame.

Then there's the "injustice narrative" that some lower-income debtors use to justify ignoring "unfair" obligations – like the "$300 line of credit" scam (see sidebar). Yet, even the unjust debts can be paid eventually if debtors try to heal credit histories. They might have to take another job, do without or sell valuables; but goals like home ownership can be motivating, Tach and Greene suggest.

"Creditors may want to rethink some of their harshest tactics for collecting debts," they conclude, "and instead consider innovative programs that promote repayment with an eye toward the mobility goals of those who owe."

From $300 to $840 without charging a penny

Tach and Greene tell the story of one 18-year-old mother who fell for the unsolicited credit card offer of a "$300 line of credit." When the card arrived, only $40 in credit was available because she already owed an $80 "annual fee" and an "activation fee" that was never clearly specified. The mother immediately called to say she did not want the card and she never used it, but the annual charges, late fees, interest and other penalties piled up year after year. "By the time she was 25, that $300 line of credit had an $840 balance, even though she never charged a penny to it," Tach recalled. "That's why people reject the debts they deem to be unfair."

Provided by Cornell University

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