

SOCIOECONOMIC INEQUALITY IN ISRAEL

A Theoretical and Empirical Analysis



*Edited by Nabil Khattab,
Sami Miaari, and Haya Stier*



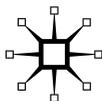
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Introduction

Nabil Khattab, Sami Miaari, and Haya Stier

Inequality has been at the center of scholarly and policy attention in many industrialized countries. The rise in income inequality during the last decades, which characterizes many industrial countries, led to growing concerns for future economic, social, and political stability of societies and the well-being of their citizens. Recent studies highlight the drivers of inequality as well as its consequences (e.g., Salverda et al. 2014). Economic changes within the Western world during the last few decades have contributed greatly to the rise in inequality and poverty, affecting the opportunity structure open to different groups in society and the income distribution. Increasing competition due to the opening up of international markets and to an influx of migrant workers on the one hand, and technological developments on the other hand, changed employment opportunities and the structure of demand for workers. These changes have increased opportunities for the highly skilled and narrowed those for workers lacking the appropriate skills and educational background. In addition, economic and financial crises further increased employment instability and affected the wages of, especially, vulnerable groups of workers, while traditional worker protections have eroded with the weakening of labor unions. All of these factors have sharpened economic inequality and left the labor market's more vulnerable groups with uncertainty, low wages, and worsening work conditions.

In addition, changes in the welfare system have had a particularly negative impact on groups characterized by a high degree of economic vulnerability. Cutbacks in the support extended by many Western countries to the unemployed and to single-parent families, as well as the implementation of welfare-to-work programs and the creation of incentives for labor market participation, have brought numerous low-skilled workers into the labor force, where they are employed in low-wage jobs. That said, inequality is affected by household strategies, and the increase in dual-earner household and the total hours households allocate to market work explain not only changes in inequality over time but also differences in the economic position of different groups within a society. Similarly, premarket inequalities, especially those related to the educational

system, constitute a major determinant of group inequities, as educational opportunities differ considerably between social groups in many countries. Education increased considerably in most western countries, in particular the rate of tertiary education. The expansion of education is viewed as a mechanism to reduce inequality as educational opportunities become more equal, and since education is positively related to income, the access of more people to higher education is expected to reduce income gaps. However, studies show that this is not necessarily the case, as education is still related to social origin (Ballarino et al. 2014; Breen and Johnson 2005), and inequalities between social groups persist even when higher education becomes more universal.

Among industrialized countries, Israel represents an interesting case as the level of inequality is high in many aspects of life—income inequality in Israel is among the highest in the western world (OECD 2014) and, as in many advanced societies, rose considerably in recent years. Similarly, the poverty rate in Israel is high, with about 20 percent of the total population having a disposable income below 50 percent of the national median. Israel is also one of the very few countries where the rate of relative income poverty has actually increased between 2007 and 2011. Not only is its poverty among the highest in the western world, but also the income gaps between different income classes, as studies on Israel show (e.g., Ben-David and Bleikh 2013). For example, the relative gap between the ninetieth and fiftieth percentiles is 2.3, among the highest in OECD countries, as are the gaps between the median income and the lowest tenth percentile, or within the middle class (*ibid.*: 42–3). These studies also show that welfare policies in Israel are less efficient in reducing poverty and inequality compared to other OECD countries.

Economic transformations, associated with increasing inequality, also affected the Israeli labor market. As in many other developed countries, the Israeli labor market has experienced high technological advancement alongside processes of privatization and globalization. Over the last decades, with rising labor force participation and declining unemployment, competition in the labor market grew as well, and the stability of employment deteriorated. This was accompanied by a steady decline in unionized employment (Cohen et al. 2007) and the introduction of flexible work arrangements in the private as well as public sectors. This transformation has resulted in growing employment instability during the last decade (Endweld and Gealia 2013; Neuman and Ziderman 2003).

As in many other Western countries, the level of education in Israel rose significantly over the last decades, more so for women than for men (Addi-Raccach and Mcdossi 2009; Shavit and Bronstein 2011). The labor force participation of women rose accordingly (Stier and Herzberg 2013). As noted above, education is one of the major drivers of inequality—in a technologically developed society such as Israel, where unskilled workers find difficulties to secure good jobs and maintain a reasonable standard of living, education is a major stratifying mechanism.

Israel is an extremely divided society along ethnic, national, religious, and political lines. These divisions produce unique conditions within which the effect of factors such as gender, class, region, age, and education are highly contextualized. For example, gender differences within the Jewish majority differ from those among the Palestinian minority group. Even within the majority Jewish group, the social and economic profile of Jewish Orthodox men differs significantly from that of their more secular counterparts. These extremely contextualized intersections make the study of inequality in Israel especially important. Studies conducted in recent years (Flug and Kasir 2003; Lewin and Stier 2002; Stier and Lewin 2002, 2013; Stier 2011) have shown that poverty rates are exceptionally high within the ultra-Orthodox and the Arab sectors, due to a variety of demographic and social factors, including large numbers of children per family, limited labor force participation, and low skill levels. Similarly, educational disparities still persist in Israel, with levels of education significantly higher among Jews than among Arabs, and inequalities within each group based on social origin, ethnicity, or religion (see chapter 5 in this volume).

The book addresses different aspects and different areas of inequality in Israel. It uses different methodologies and focuses on different populations and communities. Some topics have not been studied before in Israel, at least not in a systematic way, such as household debt in late life or spatial analysis of minority workers in the Israeli labor market, which is the focus of the first chapter. Thus this book expands our knowledge and understanding in relation to the various mechanisms through which inequality is produced and maintained in Israel and the role state policies play in minimizing or increasing the impact of these mechanisms.

The book includes ten chapters that are organized around four themes: (1) household inequality, (2) inequality in education, (3) gender inequality, and (4) ethnic inequality. The first two themes are covered by three chapters each whereas the last two themes are covered by two chapters each. The first chapter, by Lewin-Epstein and Raviv, analyzes the rise of household debt among the elderly population in Israel. In this chapter the authors argue that consumer society and its institutional structure are important driving forces behind the phenomenon of household debt and its “normalization.” While debt has become commonplace, the vicissitudes of late life (e.g., ill health and reduced income) pose new risks and a burden that in some cases may lead to economic ruin. Theoretically, the chapter is organized around two concepts that are fundamental to social stratification: consumption and risk. The authors demonstrate how the elderly population (age 50 and older), like the rest of the Israeli population, responds to the culture of consumption by increasing their consumption of material goods and services, but many of them do that by raising their debt levels. Those with low income households face a serious risk of not meeting debt payments, which suggests that the risk that is taken by different households is unequally distributed.

The chapter uses new data obtained from Wave 1 (2009–2010) of the Survey of Health, Aging, and Retirement in Europe (SHARE). The data set contains detailed information for a representative sample of 1,569 households in which at least one person was age 50 or older. The authors use logistic and Tobit regression models to estimate the likelihood of being in debt and the relationship between the amount of financial debt and household characteristics.

The chapter reveals that just over one-third of all households reported having financial debt, and 13 percent reported mortgage debt, which leads the authors to conclude that debt is widespread. However, low-income households carry a relatively larger debt burden (their debt relative to their annual income) and face serious risk of not meeting debt payments.

The chapter reveals that recent immigrants from the former Soviet Union are less likely to have consumer debts but more likely to have home mortgages than Israeli-born Jews. It also suggests that Palestinians citizens of Israel do not differ from Israeli-born Jews with respect to financial debt. The authors conclude that this is in line with studies that showed increasing participation of Palestinians in the consumer society, following the globalization and the mass consumption culture to which they are drawn along with the rest of the Israelis.

Chapter 2 addresses household inequality from a different angle. It examines the impact of close correlations between spouses with respect to economic, social, and other characteristics (assortative mating) on inequality across households in income, earnings, and wealth. Plaut and Plaut, the authors of this chapter, argue that spousal correlation in education and other variables creates earnings correlation between spouses that amplifies inequality across households. To examine their argument, the authors employ data from the Israeli Annual Income Survey with a set of explanatory variables that includes ethnic measures, age, household size, geographic location, and membership in “elite” professions. The study shows that the positive correlation between spouses’ earnings remains even after taking all of the above factors into account. As a result, the authors conclude that assortative mating at all levels appears to magnify and amplify inequality across households, which can be seen as an important factor in understanding and explaining patterns of household inequality.

The household income inequality is further analyzed in chapter 3, but here the focus is on the impact of the years and type of schooling on the household income inequality. Kimhi and Sadler examine the impact of two types of education: general schooling and ultra-Orthodox schooling, while the assumption they make is that ultra-Orthodox schooling is not as valuable as general schooling for labor market outcomes. The chapter utilizes data obtained from the 2006 Annual Income Survey in Israel. The data include a detailed account of household income, personal information about all household members over 15 years of age such as age and schooling, as well as the demographic structure of the household (i.e., the number of household members in different age groups).

The analysis points out that years of general schooling of the household head have a positive effect on per capita household income, while the effect of years of ultra-Orthodox schooling is negative. As a result, the chapter finds that a uniform percentage increase in years of general schooling reduces per capita income inequality, while a similar increase in ultra-Orthodox years of schooling increases inequality. The authors conclude that when policy makers consider public funding of ultra-Orthodox schools, they should take into account the adverse effects of this type of schooling on income inequality.

Chapter 4 is the first of three chapters addressing inequality in education in Israel. This chapter, coauthored by Ayalon and Mcdossi, is primarily concerned with the role of field of study in creating the stratification within higher education in Israel. The authors examine the hypothesis that the choice of field of study moderates the disadvantage of first-generation students in higher education. They examine the choices of institution type and field of study of first- and continuing-generation students of various ethno-religious groups in the expanded Israeli higher education system.

To examine their hypothesis, the authors use a special data set that has been prepared by the Israeli Central Bureau of Statistics (CBS) through combining data from the 1995 population census with data provided by the Ministry of Education and tertiary education institutions. The data set includes information on 91,528 observations representing the Israeli population born between 1978 and 1982, when aged 13–17. However, for the most part of the analysis, the authors use a smaller sample of 31,000 members who enrolled in higher education.

The results reveal that the major source of the disadvantaged position of first-generation students within higher education is institution type. However, as the authors expect, field of study helps moderate this disadvantage. The chapter also suggests that first- and continuing-generation prefer to study the most rewarding and prestigious professional fields, but they do it in different institution types: first-generation students in the second-tier institutions, the *michlalot* (colleges), and their continuing-generation peers in the esteemed universities. This places the first-generation students in a lower position in the stratification within higher education, but it does not necessarily imply that this disadvantage is transferred to the labor market. While this is true in relation to the Jewish population, a different picture emerges in the comparison between Jews and Arabs. First-generation Arab students, like their Jewish counterparts, prefer the professional fields; but unlike their Jewish peers they concentrate on the nonprestigious professions, which situates them in the lower part of the hierarchy within higher education, opens limited labor market opportunities, and as a result preserves their disadvantage.

Chapter 5, coauthored by Friedlander, Okun, and Goldscheider, explores differential educational attainment across a wide range of ethno-religious groups in Israel. The chapter analyzes ethno-religious differences in the quality of the matriculation diploma earned by students at the end of the high

school. The quality of this diploma is crucial because it determines the field of study and the type of higher education institution that a student can apply to. The authors of this chapter argue that the educational inequality that can be observed in present times can be traced back to the time at which the state of Israel was established (1948). They suggest that a combination of intergenerational transmission of inequality and the impact of government policy have preserved the initial gaps between disadvantaged groups and affluent groups in terms of quality education and subsequently in occupational status.

This study uses data created from linking records of matriculation examination file for the years 1991–2000 with household records from the 1983 Israeli census sample. The linked data contain detailed information on the achievements of matriculation examinees, on their school quality (calculated on the basis of matriculation grades obtained by the examinees of respondents' school), and on their family background characteristics.

The analysis in this study reveals a consistent hierarchy in terms of matriculation quality, which places Jews of European origin at the highest position, followed after a significant gap by Christian Arabs and Jews of Asian-African origin, who are in turn followed after another significant gap by Muslims and Druze. The authors also find that the same pattern of hierarchy does exist in relation to occupational attainment leading them to conclude that because matriculation quality is determined in part by the socioeconomic status of the household of origin, ethno-religious gaps are likely to continue in the coming decades, and will be maintained, at least in part, into the next generation.

In chapter 6, Khattab and Lazarus examine ethnic differences in overeducation and its impact on earnings in Israel. The chapter attempts to answer two main questions: (1) To what extent are immigrant (Russians) and native minority groups (Palestinians) more likely to experience educational discrepancies (overeducation) compared to ethnic majority groups? (2) To what extent does the status of overeducation yield different impacts on the earnings of these groups? The authors argue that for minority groups an occupational match does not necessary yield equal earning returns compared to the majority group, and that the initial cultural or religious proximity between an immigrant group and the host majority group is not a sufficient factor to eliminate the initial disadvantages due to the immigration process.

The authors examine this argument by employing data obtained from the Labor Force Surveys (LFS) and Annual Income Survey (AIS) Surveys between 2006 and 2011. The authors find that Palestinians are more likely to experience overeducation than the nonimmigrant Jewish population and are less likely to be undereducated. Moreover, Palestinians suffer a more pronounced drop in salary for holding positions for which they are overeducated when compared to counterparts with a matching educational level. When comparing wage discrepancies of counterparts holding the same occupation and yet differing in their educational level, the authors point out that Palestinians face a greater pay penalty due to undereducation and a lower pay premium for their

surplus education. Surprisingly though, the study finds that Russian-Jewish immigrants were more disadvantaged than Palestinians in most parameters measured: they exhibit more overeducation, unrelated to compositional differences; the lowest earning premium on their overeducation relative to counterparts holding the same occupation but less educated; and the highest penalty when overeducated compared to similarly qualified individuals working in suitable positions. The authors draw on theories of discrimination and racism, as well as theories of segregation and enclave economies to explain some of the differences between the ethnic groups.

Chapter 7, coauthored by Mandel and Birgier, which is one of two chapters dealing with gender inequality, addresses two questions: (1) whether changes in gender relations in Israel in recent decades have followed the American track, and (2) whether the gender revolution in Israel still in process, or has it, as in the United States, reached its limit. The authors draw on theories of gender inequality that point to historical changes that have created an opportunities structure for women in developed countries. The authors suggest that the “gender revolution” in Israel is similar to the “revolution” in other Western countries, especially the United States. They find that Israeli women have not only entered the labor market in increasing numbers, but also changed their working pattern, including a decline in occupational segregation and an increase in the number of women accessing high-skilled and male-typed positions in professional and managerial occupations.

As a result, the authors suggest that the gender pay gap has also narrowed. However, similarly to other Western countries, the authors find that the narrowing of the gap in Israel slowed in the last decade. Additionally, men have been reluctant to enter female-dominated occupations or equally share household tasks with women. The authors explain this by turning to trends in attitudes toward gender roles and the gender division of household labor. They find that Israel follows trends similar to the United States. Despite the significant change in women’s positions in the labor market, attitudes toward gender roles have remained stable, and the inferior position of women in the family has not improved during the last two decades.

Chapter 8 by Kraus and Yonay examines the gender pay gap in four different ethno-religious groups in Israel: Muslim, Druze, Christian Palestinians, and Jews. It seeks to answer the following question: how does the general disadvantage of Palestinians in Israel affect the gender earning gaps within each of the ethno-religious groups? Of this question, the authors further extract three sub-questions: (1) Do Palestinian women face a double penalty due to their gender and national background? (2) To what extent do public-sector jobs moderate the gender penalty among Palestinian women? (3) To what extent does the weakness of Palestinian men lead to a greater gender equality among Palestinians than among Jews?

Utilizing data from the 2008 Israeli census, the authors show that the lowest net gender earnings gaps are among Christian and Jewish employees, but

the highest net gender earnings gaps are among Druze and Muslim women. The authors explain the gender pay gap among Jews by the concentration of women in women-dominated occupations within the public sector that are less rewarding than male-dominated occupations. However, the larger gender pay gap among Muslims is explained by the greater competition between men and women over the same jobs. The authors suggest that many educated Muslim men are forced to take teaching jobs, the most common occupation for Muslim women due to the lack of other employment opportunities. As a result, the authors see that the gender earnings gap for Muslims is especially high among employees in the public sector and among those who work in female-dominated occupations.

Chapter 9 by Schnell and Shdema highlights the role of residential segregation in explaining labor market inequality within the Arab population in Israel. The authors of this chapter argue that the combination of peripherality and socio-spatial segregation contribute to Arabs' inclusion or exclusion in the Israeli labor market. They draw on Putnam's theory of forms of capital to introduce a new concept of integration capital, which refers to various forms of capitals that Arab workers accumulate from sources in the Jewish society.

To examine their argument, the authors utilize two different data sets: the official Central Bureau of Statistics municipalities (updated to 2011–2012) and a data set consisting of information on 144 interviewees sampled from different types of localities—Arab, mixed (Jewish-Arab), and respondents who moved to live in Jewish cities.

The analysis reveals that peripherality is the major geographical barrier for integration. Arabs and Jews in the national periphery suffer from fewer opportunities for integration than counterparts who live within a closer distance to the national core. However, the analysis reveals that Arabs could somehow moderate the negative influence of their peripheral localities by commuting to the national core. The authors suggest that while commuting to the core may help reduce the impact of peripherality, it creates further penalty (e.g., commuting expenses and time). However, the authors have not analyzed this additional penalty any further.

The study also suggests that the negative impact of peripherality is greater for Arab women than for Arab men due to a strong gender division of labor, which means that women cannot commute to the national core because of their caring responsibilities as mothers and wives. The lack of day care solutions as well as limited public transportation in the remote Arab localities meant that employment opportunities within the core economy are not an option for most Arab women (for more discussions on gender inequality, please see chapters 7 and 8).

Chapter 10, coauthored by Shalev and Lazarus, is the last chapter in the book. It sets out to clarify both the extent and the sources of the glaring gap between the effectiveness of redistribution in relieving poverty among Israel's Arab and Jewish citizens. The chapter seeks to answer a number of important

questions, but the most important one is whether inequality between Arabs and Jews in Israel is evident in the magnitude of redistribution through cash benefits to more as well as less economically advantaged households.

This study provides the first detailed and up-to-date analysis of sectoral differences in income from transfer payments. It probes what the authors term “horizontal inequalities” across three main cleavages: between Jews and Arabs, between citizens and noncitizens, and between the socially, politically, and economically dominant Jewish majority and minorities of all origins (Haredi Jews as well as Arabs).

To answer the above question, the authors employ a large official data set. The empirical analyses in this study are based on a large household-level data set constructed by pooling the Integrated Incomes and Household Expenditure Surveys conducted and collected annually by Israel’s Central Bureau of Statistics between 2007 and 2011. This survey covers most of the population of Israel and has provided a sample of around 175,500 individuals aged 15 or older nested in 73,573 households.

The study finds that differences among the sectors in eligibility factors partly explain gaps in benefit payments. However, the remaining gaps largely depend on their market income. Within the poorest of households, despite the importance of benefits earmarked for poor Haredim, the main difference is between citizens and noncitizens, highlighting the liberal dimension of Israeli citizenship. Underlying this gap is the significantly lower take-up rate of mainstream national insurance plans by residents of East Jerusalem than by Arab citizens. Findings on the benefit income of households with higher income, for which need-related benefits are less significant, reveal the republican dimension of the redistributive system, which clearly favors Jewish sectors over their Arab counterparts. This is mainly due to the role of “loyalty benefits” and sector-specific schemes, from which Arabs are formally or virtually excluded.

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Part I

General Inequality

The Correlates of Household Debt in Late Life

*Noah Lewin-Epstein and Or Raviv**

Abstract

The chapter is motivated by the rise of household debt in recent decades in Israel, as in most economically developed societies. This phenomenon, spurred by the omnipresent consumer culture and growing use of credit, is evident in the aging population as well as among younger cohorts. Students of consumer society have attributed the fast-growing use of credit in late life to increased longevity and the greater importance the elderly place on material comfort and leisure activities, compared to previous generations. The theoretical framework for this chapter builds on two concepts central to social stratification: consumption and risk. We argue that consumer society and its institutional structure are important driving forces behind the phenomenon of household debt and its “normalization.” While debt has become commonplace, the vicissitudes of late life (e.g., ill health and reduced income) pose new risks and a burden that in some cases may lead to economic ruin.

The chapter employs recent survey data to study the distribution of household debt and its correlates in Israel. The data were collected between 2009 and 2010 within the framework of the Survey of Health, Aging, and Retirement in Europe (SHARE). The data set contains detailed information for a representative sample of 1,569 households in which at least one person was age 50 or older. Information is available regarding debts associated with homeownership (mortgages) as well as financial debts (e.g., credit card debts, bank loans, etc.).

The first part of the analysis addresses the prevalence of different types of debt in late life and their distribution in relation to demographic characteristics (e.g., age, marital status, household composition) and examines the extent to which debt patterns mimic the well-known ethno-national socioeconomic

inequalities in Israel. In the second section we evaluate the relationship between objective and subjective hardship and household debt. The final section casts household economic debt within a stratification framework and evaluates it both as a social risk and as a form of social closure in Israeli society.

Introduction

The present chapter is motivated by recent studies concerning the rise in household debt in most economically advanced societies (Backé et al. 2007; Crook and Hochguertel 2007; Iacoviello 2008). Studies addressing this issue also found that the proportion of households in debt is growing faster in the elderly population than in the population as a whole. It is argued that the current generation of senior citizens is much more likely than earlier generations to engage in consumption of goods and services, and to use various forms of credit to do so (Higgs et al. 2009; Lusardi and Mitchel 2013; Thorne et al. 2009). These trends appear to be at odds with traditional life-course models that typically view midlife and older age as the phase of peak resource accumulation on the one hand and declining expenditures on the other hand (e.g., Modigliani 1966). This divergence from the life-course progression that was modeled on previous generations reflects substantial changes in consumer culture, the regulation of credit, and changing needs of a population experiencing increased longevity. In view of these developments and the fact that the aging population is growing rapidly in many countries, we argue that sociologists in general and students of social stratification in particular should pay closer attention to household debt, as it reflects important behavioral patterns as well as potential risks facing individuals and households.

The overall aim of this chapter, then, is to outline the contours of indebtedness in advanced age in the context of Israeli society, which is increasingly characterized by unrestrained consumer culture and highly developed impersonal financial institutions. In doing so we address two related questions: first, what is the prevalence of household debt and its composition in midlife and old age; and second, what are the social and demographic correlates of indebtedness, and how is debt related to the household's position in the stratification system.

The Rise of Household Debt

Household debt, as any debt, "is an obligation or liability . . . arising from borrowing money or taking goods or services 'on credit,' i.e., against an obligation to pay later" (Prinsloo 2002: 63). Unlike other forms of social obligation, monetary debts can be precisely quantified. As such they become impersonal and transferable. Hence, in advanced economies most household debts are to institutions rather than to other individuals (e.g., Georgarakos et al. 2012) and

are what Graeber (2011) terms commercial exchanges. Nonetheless, debts are socially embedded since ultimately they are based on trust and are backed by institutionalized threats on the part of the lending party to exert force in order to recover the debt.

The increasing levels of household debt among most population groups in economically advanced societies should direct our attention to structural and cultural changes that have taken place in postindustrial societies. One important change is that governments' commitment to the welfare of the citizenry has taken a backseat to its commitment to fiscal responsibility. As a result, the welfare state is contracting, and families are more exposed to the risks of market forces. From a macrolevel perspective, access to credit has facilitated economic growth at a time in which government spending is contracting (Chmelar 2013). As households are required to meet the growing costs of health care (Lee et al. 2007; Thorne et al. 2009) and other welfare services, household debt is substituting for public debt (Glick and Lansing 2010; Russell et al. 2013). Need, then, is an important driver of growing household indebtedness. Indeed, household size, rising costs of education, poor health, and spells of unemployment are all positively associated with household debt.

A second structural change is institutional reforms in financial markets that are making credit more accessible to growing numbers of households (Kus 2013). The "democratization" of credit has made credit available to lower-middle-class and lower-class populations, thus incorporating them into "consumer society" (Lyons 2003). This is true in general and with respect to housing loans in particular. Indeed, many researchers note that the deregulation of credit institutions is one of the central causes of the rapid growth of household debt (Backé et al. 2007; Glick and Lansing 2010; Prinsloo 2002).

Growing income inequality is a third structural change that drives growing indebtedness. The income of those at the top of the distribution has been rising while the real income of large segments of the population stagnated and in some cases even declined (Atkinson 2003; Smeeding 2002). Yet all segments of society are increasingly exposed to the consumption patterns of the well-to-do and seek to emulate them. Furthermore, growing income dispersion is occurring not only between different populations, but within groups with similar social characteristics. In other words, persons who form similar expectations (say, on the basis of their education) may have very different economic means to realize their expectations (e.g., Georgarakos et al. 2012). Using credit is one way of bridging the gap between means and desires, and in the process, indebtedness becomes normalized and viewed not only as legitimate but as essential for households' efforts to maintain consumption patterns commensurate with a standard of living they view as socially desirable (Penaloza and Barnhart 2011). From this perspective the use of credit is as much a cultural phenomenon as a pragmatic necessity. Indeed it is noteworthy that in recent decades, consumption inequality increased only modestly compared to income inequality (Krueger and Perri 2006).

Household Debt and Social Stratification

Household debt and its distribution are linked to two important dimensions of social stratification: consumption patterns and differential exposure to the risk of economic ruin. A long line of research, beginning with the pioneering work of Veblen (2005 [1899]), and including influential writers such as Bourdieu (1984), has demonstrated the importance of consumption and consumption expectations as stratifying forces in society. Indeed, consumption patterns have formed a central dimension of the social hierarchy and served to distinguish between social strata throughout most of human history. Extravagant consumption sets the upper strata apart from the mass of the population. Access to credit is another form of social closure whereby persons at the lower end of the stratification system are excluded from fully participating in consumer society (Hohnen 2007; Pahl 1999).

Class differences notwithstanding, in recent decades consumption expectations have become more uniform for all but the poverty-stricken population (Bauman 1998). The blurring of class distinctions and the high visibility of luxury consumption pressures middle and lower classes to increase consumption beyond their means (Dwyer 2009). Seduced by the promise of “taking the waiting out of the wanting,”¹ households in the middle and lower rungs of the stratification system may be driven to spend more than their means permit, as they emulate the consumption patterns of the more well-to-do (Lyons 2003; O’Loughlin 2006). In this regard it is noteworthy that while there is a positive correlation between household wealth and debt, household debt is more equally distributed than household assets (Wolff 2007).

These behavioral patterns are not merely a matter of unrestrained desires but are deeply embedded in the social and economic structures of capitalist society. The capitalist mode of production constantly seeks consumers for its ever-growing capacity to produce, and is engaged in aggressive marketing of credit to bridge the gap between stagnant income levels of recent decades and desired scales of consumption (Barba and Pivetti 2009; Bauman 2009).

A second way in which household indebtedness is fundamental to social stratification derives from the fact that indebtedness represents, among other things, risk that is unequally distributed (Beck 1992; Esping-Andersen 1999; Taylor-Gooby et al. 1999). Recent trends show an increase in the level of household debt (McCloud and Dwyer 2011) and that the increase is disproportionately concentrated in households with lower levels of income and wealth (Lyons 2003). Not surprisingly, empirical research shows that delinquency on loans increases with unexpected negative life events (Getter 2003). Such hardship is often compounded by the fact that middle and lower class families increasingly finance their consumption by raising their debt levels (Frank 1999). To the extent that such indebtedness is prolonged, it may jeopardize the household’s position in the stratification system (Krueger and Perri 2006; Porter 2012). To underscore this point, a recent study by Zhu (2011) compared households